

NEW ISSUE - Book-Entry-Only

RATINGS: See "OTHER INFORMATION - Ratings" herein

In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, interest on the Bonds (defined herein) will be excludable from gross income for federal income tax purposes under statutes, regulations, court decisions, and published rulings existing on the date thereof subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax consequences on corporations.



\$150,000,000
TEXAS TRANSPORTATION COMMISSION
STATE OF TEXAS GENERAL OBLIGATION
MOBILITY FUND BONDS, SERIES 2006-B
(Multi-Modal Bonds)

Dated: December 1, 2006

CUSIP No. 882721 RM 7

Interest Accrues From: Date of Delivery

Due: April 1, 2036

The "Texas Transportation Commission State of Texas General Obligation Mobility Fund Bonds, Series 2006-B (Multi-Modal Bonds)" (the "Bonds") are general obligations of the State of Texas (the "State"), issued by the Texas Transportation Commission (the "Commission"), the governing body of the Texas Department of Transportation (the "Department"), an agency of the State. The Bonds are being issued pursuant to the authority granted to the Commission, acting on behalf of the Department, by Article III, Section 49-k of the Texas Constitution and Subchapter M, Chapter 201, Texas Transportation Code, as amended; Chapter 1371, Texas Government Code, as amended; a "Master Resolution" adopted by minute order of the Commission on May 4, 2005 (the "Master Resolution"); and a "Fifth Supplemental Resolution" (the "Fifth Supplemental Resolution") adopted by minute order of the Commission on September 28, 2006. The Master Resolution establishes the Texas Mobility Fund Revenue Financing Program (the "Program") to provide a financing structure for the issuance of obligations payable in whole or in part from revenues dedicated to and on deposit in the Texas Mobility Fund (the "Fund"). The Bonds are being issued to pay, or reimburse the State Highway Fund or the Mobility Fund for, the costs of (i) constructing, reconstructing, acquiring, and expanding State highways and providing participation by the State in the payment of part of the costs of constructing and providing certain publicly owned toll roads and other public transportation projects and (ii) issuing the Bonds.

The Bonds will initially be issued in the Initial Mode bearing interest at the Initial Rate, set forth below. Interest on the Bonds in the Initial Mode will accrue from the date of delivery and is payable on April 1, 2007 and September 5, 2007. **The Bonds are subject to mandatory tender for purchase on September 5, 2007 at a price of 100% of the principal amount thereof, plus accrued interest.** Thereafter, immediately following the Initial Mode, the Bonds will be converted to a Daily Mode or a Weekly Mode (unless the Commission elects to convert the Bonds to a Term Rate Mode, a Fixed Rate Mode, a Commercial Paper Mode or an Auction Rate Mode, as described herein). During the Initial Mode, the Bonds are not subject to conversion or redemption and there will be no optional right to tender Bonds for purchase. For information concerning redemption, tenders for purchase, interest payment dates, interest periods, interest rate, and denominations of Bonds, see "DESCRIPTION OF THE BONDS" herein. The Bonds are initially issuable and delivered 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. No physical delivery of the Bonds will be made to the purchasers thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the "Paying Agent/Registrar," initially Wells Fargo Bank, N.A., to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent remittance to the owners of the beneficial interests in the Bonds. See "DESCRIPTION OF THE BONDS - Paying Agent/Registrar" and "APPENDIX D - Book-Entry-Only System."

Obligations which are payable from the Fund and secured on a first lien basis by the "Security" (as defined herein) are "Parity Debt" obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Other Sources of Payment - Pledge of Security" for a description of the Security. The Bonds are being issued as Parity Debt. See "PLAN OF FINANCE" for information concerning previously issued Outstanding Parity Debt. The Bonds are further secured by the full faith and credit of the State and are the fifth series of obligations being issued or executed under the Program.

The Commission has entered into a standby bond purchase agreement (the "Initial Liquidity Facility") with State Street Bank and Trust Company, as administrative agent, and State Street Bank and Trust Company ("State Street") and the California Public Employees' Retirement System ("CalPERS"), as liquidity providers (collectively, the "Initial Liquidity Facility Issuer") for the Bonds that are in the Initial Mode, the Daily Mode or the Weekly Mode and that are not remarketed upon a tender thereof. The Initial Liquidity Facility expires on December 13, 2013, unless extended or terminated sooner in accordance with its terms. The Initial Liquidity Facility does not constitute security or credit enhancement for the Bonds. The Initial Liquidity Facility serves as a source of liquidity to pay the purchase price of tendered Bonds. Under certain circumstances, the obligation of the Initial Liquidity Facility Issuer to purchase Bonds may be terminated without notice to bondholders and without mandatory tender of the Bonds. See "DESCRIPTION OF THE BONDS - The Initial Liquidity Facility" herein. **THE COMMISSION HAS NO OBLIGATION TO PURCHASE TENDERED BONDS.**



STATE STREET



CalPERS

THE BONDS ARE GENERAL OBLIGATIONS OF THE STATE AND ARE SECURED BY THE FULL FAITH AND CREDIT OF THE STATE. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein and "APPENDIX A - The State" attached hereto for general information regarding the State, including information concerning outstanding general obligation bonds of the State.

The Bonds are subject to mandatory and optional redemption prior to maturity as more fully described herein.

This Official Statement describes the Bonds only while in the Initial Mode, Daily Mode, Weekly Mode, Commercial Paper Mode, Term Rate Mode, or Fixed Rate Mode and is not intended to provide any information to prospective owners of the Bonds after conversion to an Auction Rate Mode.

This cover page contains information for quick reference only and 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.

INITIAL RATE: 3.52%; PRICE 100%

The Bonds are offered for delivery when, as, and if issued and accepted by the Underwriter, and subject to the approval of the Attorney General of the State and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel. Certain legal matters will be passed upon for the Commission by the General Counsel to the Commission and by Andrews Kurth LLP, Disclosure Counsel to the Commission. Certain legal matters will be passed upon for the Underwriter by its counsel, Delgado, Acosta, Braden & Jones, P.C. Certain legal matters will be passed upon for the Initial Liquidity Facility Issuer by its counsel, Winston & Strawn LLP (for State Street) and Preston, Gates & Ellis, LLP (for CalPERS). It is expected that the Bonds will be delivered on or about December 13, 2006, through the facilities of DTC.

GOLDMAN, SACHS & CO.

STATE OF TEXAS OFFICIALS

Rick Perry	Governor
David Dewhurst	Lieutenant Governor
Greg Abbott	Attorney General
Carole Keeton Strayhorn	Comptroller of Public Accounts
Jerry Patterson	Commissioner of the General Land Office
Susan Combs	Commissioner of Agriculture

TEXAS TRANSPORTATION COMMISSION

Name	Title	Term Expires
Ric Williamson	Chair	February 2007
Hope Andrade	Commissioner	February 2007
Ted Houghton	Commissioner	February 2009
John W. Johnson	Commissioner	February 2005 ⁽¹⁾
Vacant	Commissioner	N/A

⁽¹⁾ Continues to serve until a successor is appointed

TEXAS DEPARTMENT OF TRANSPORTATION

Name	Position	Total Service with the Department
Michael W. Behrens, P.E.	Executive Director	34 years
Steven E. Simmons, P.E.	Deputy Executive Director	23 years
Amadeo Saenz, Jr., P.E.	Assist. Exec. Dir., Engineering Operations	28 years
Edward Serna	Assist. Exec. Dir., Support Operations	1 year
James M. Bass	Chief Financial Officer	18 years
John Muñoz	Deputy Director, Finance Division	18 years
Jose Hernandez	Debt Management Director	9 months
Bob Jackson	General Counsel	21 years

CONSULTANTS AND ADVISORS

Financial Advisor RBC Capital Markets
 Bond Counsel McCall, Parkhurst & Horton L.L.P.
 Disclosure Counsel Andrews Kurth LLP

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 Albuquerque, New Mexico 87110
 (505) 872-5996

SALE AND DISTRIBUTION OF THE BONDS

Use of Official Statement

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

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

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

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

Neither the Commission nor the Financial Advisor make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company ("DTC") or its book-entry-only system, as provided for in "APPENDIX D – Book-Entry-Only System" or information under the caption "DESCRIPTION OF THE BONDS – The Initial Liquidity Facility Issuer" regarding State Street Bank and Trust Company ("State Street") and the California Public Employees' Retirement System ("CalPERS"), as such information was furnished by DTC, State Street and CalPERS, respectively.

Marketability

THE PRICE AND OTHER TERMS RESPECTING THE OFFERING AND SALE OF THE BONDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER 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 UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

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

No registration statement relating to the Bonds has been filed with the SEC under the Securities Act of 1933, as amended, in reliance upon an exemption provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the

Bonds been registered or qualified under the securities laws of any other jurisdiction. The Commission assumes no responsibility for registration or qualification for sale or other disposition of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

The statements contained in this Official Statement, and in other information provided by the Commission, that are not purely historical, are forward-looking statements, including statements regarding the Commission's expectations, hopes, intentions, or strategies regarding the future and the projections of the Comptroller of Public Accounts of the State. 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 "OTHER INFORMATION – Forward-Looking Statements."

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**OFFICIAL STATEMENT
RELATING TO**

**\$150,000,000
TEXAS TRANSPORTATION COMMISSION
STATE OF TEXAS GENERAL OBLIGATION
MOBILITY FUND BONDS, SERIES 2006-B
(Multi-Modal Bonds)**

INTRODUCTION

The purpose of this Official Statement (which includes the cover page and Appendices) is to furnish information concerning the offering of the “Texas Transportation Commission State of Texas General Obligation Mobility Fund Bonds, Series 2006-B (Multi-Modal 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 amount set forth above. The Bonds will be issued pursuant to the authority granted to the Commission and the Department by Article III, Section 49-k of the Texas Constitution (the “Constitutional Provision”) and Subchapter M of Chapter 201, Texas Transportation Code, as amended (collectively, the “Enabling Act”); Chapter 1371, Texas Government Code, as amended; and the “Master Resolution Establishing the Texas Transportation Commission Mobility Fund Revenue Financing Program” adopted by minute order of the Commission on May 4, 2005 (the “Master Resolution”), as supplemented by the “Fifth Supplemental Resolution” to the Master Resolution, adopted by minute order of the Commission on September 28, 2006 (the “Fifth Supplemental Resolution”) and, together with the Master 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 B, except as otherwise indicated herein.

The Texas Legislature (the “Legislature”) established the Texas Mobility Fund (the “Mobility Fund” or “Fund”) pursuant to the Constitutional Provision to be administered by the Commission 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 Fund may also be used to provide participation by the Department in the payment of a portion of the costs of constructing and providing publicly owned toll roads and other public transportation projects.

Pursuant to the Enabling Act, the Commission may sell obligations of the State and enter into “Credit Agreements” 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 Fund. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Credit Agreements.” Pursuant to its authority to enter into Credit Agreements, the Commission will enter into the Initial Liquidity Facility to provide for the payment of the purchase price of the Bonds while in the Initial Mode, Daily Mode or Weekly Mode and tendered for purchase but not remarketed by the Remarketing Agent.

The Legislature has dedicated certain revenues to the Fund and such revenues (referred to herein as the “Dedicated Revenues”) must be deposited in the Fund. The Master Resolution establishes the Texas Mobility Fund Revenue Financing Program (the “Program”) to provide a financing structure for the issuance of obligations payable from a pledge of and lien on all or part of the moneys in the Mobility Fund, including Dedicated Revenues. Obligations that are payable from the Mobility Fund and secured on a first lien basis by the “Security” are “Parity Debt” obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Other Sources of Payment” for a more detailed description of the Dedicated Revenues and the Security. The Bonds are being issued as Parity Debt. The Commission’s obligations under the Liquidity Facility are also Parity Debt. See “PLAN OF FINANCE” for information concerning previously issued Outstanding Parity Debt. Upon their deposit in the Fund, Dedicated Revenues are available for the payment of Parity Debt, including the Bonds and the previously issued Outstanding Parity Debt, without further appropriation by the State.

Pursuant to the Constitutional Provision, while money in the Fund is pledged to the payment of any outstanding obligations or related credit agreement, the dedication of a specific source or portion of revenues, taxes, or other money may not be reduced, rescinded, or repealed unless the Legislature by law dedicates a substitute or different source projected by the Comptroller of Public Accounts of the State (the “Comptroller”) to be of a value

equal to or greater than the source or amount being reduced, rescinded, or repealed and the Commission has implemented a pledge of the State's full faith and credit, if such a pledge is not already in place, for the payment of obligations then secured by such Dedicated Revenues. There can be no assurance that the Legislature will not replace some or all of the Dedicated Revenues outlined herein. If the Legislature replaces any revenue source with a substitute source, the Master Resolution provides that the definition of "Dedicated Revenues" with respect to Parity Debt, including the Bonds and the previously issued Outstanding Parity Debt, will be revised accordingly. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Other Sources of Payment."

The Enabling Act also provides the Commission with the authority to guarantee the payment of Parity Debt by pledging the full faith and credit of the State to the payment of Parity Debt if Dedicated Revenues are insufficient for such purpose. The Commission has implemented such authority to pledge the full faith and credit of the State to the payment of the Bonds and the previously issued Outstanding Parity Debt. THE BONDS CONSTITUTE GENERAL OBLIGATIONS OF THE STATE AND THE FULL FAITH AND CREDIT OF THE STATE IS PLEDGED FOR PROMPT PAYMENT OF THE BONDS. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – General Obligation Pledge."

Future obligations issued for the Program in the form of Parity Debt may provide financial assistance in the form of loans to political subdivisions in the State for the payment of part of the costs of constructing and providing certain publicly-owned toll roads and other public transportation projects. Any loans made for Commission participation in projects will be made by the Commission's purchase of obligations issued by such political subdivisions to evidence such loans ("Transportation Assistance Bonds") with the proceeds of such Parity Debt. The Commission may, but is not required to, pledge the repayments relating to such Transportation Assistance Bonds to the payment of Parity Debt. In the event such repayments are pledged, such Transportation Assistance Bonds will be held in the "Portfolio Account" (as hereinafter defined) of the Mobility Fund and such repayments will be deposited in the "General Account" (as hereinafter defined). See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Creation of Accounts and Subaccounts within the Mobility Fund." The Commission has not used the proceeds of the previously issued Parity Debt to make loans and does not intend to use proceeds of the Bonds to make loans to political subdivisions as described above.

This Official Statement includes descriptions of the Bonds, the Initial Liquidity Facility Issuer, the Commission, the Department, and certain other matters, along with summaries of the Resolution, the Initial Liquidity Facility, the Remarketing Agreement, the Tender Agent Agreement, the Investment Agreement, the Custodial Agreement and the Administration Agreement (each hereinafter defined). The summaries of documents contained herein do not purport to be complete and are qualified in their entirety by reference to the respective documents. The forms of the Resolution, the Liquidity Facility, the Remarketing Agreement, the Tender Agent Agreement, the Investment Agreement, the Custodial Agreement and the Administration Agreement are available for inspection at the office of the Department's Finance Division, 125 E. 11th Street, Dewitt Greer State Office Building, Austin, Texas 78701. Reference is made to the caption "Selected Definitions" in APPENDIX B hereto, entitled "SELECT PROVISIONS OF THE RESOLUTION" and to the Resolution for the definition of certain terms used herein.

This Official Statement describes the Bonds only while in the Initial Mode, Daily Mode, Weekly Mode, Commercial Paper Mode, Term Rate Mode, or Fixed Rate Mode and is not intended to provide any information to prospective owners of the Bonds after conversion to an Auction Rate Mode. A Remarketing Memorandum will be issued prior to the conversion of any Bonds to an Auction Rate Mode.

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

PLAN OF FINANCE

General

The Program was initially established in the aggregate principal amount outstanding at any time not to exceed \$4 billion; and \$2,790,275,000 principal amount of obligations have been issued previously under the Program, of which amount \$2,765,790,000 is currently outstanding. The Master Resolution may be amended

without the consent of the owners to increase the \$4 billion limit, and the Enabling Act does not limit the amount of obligations issued as long as the required certifications are received. See “-Anticipated Issuance of Additional Obligations” for information concerning future issuances and changes in the maximum principal amount of obligations authorized under the Program.

Under the Resolution, the Bonds are to be issued in an aggregate principal amount of not to exceed \$300 million. The Bonds are the fifth series of obligations issued or executed under the Program. The Bonds are being issued under the Program to pay, or reimburse the State Highway Fund or the Mobility Fund for, the costs of (i) constructing, reconstructing, acquiring, and expanding certain State highways and providing participation by the State in the payment of part of the costs of constructing and providing certain publicly owned toll roads and other public transportation projects (as described below) and (ii) issuing the Bonds.

The Commission has also entered into certain Credit Agreements which constitute Parity Debt. See “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – Credit Agreements” for additional information concerning such agreements.

Strategic Plan

The Enabling Act provides that the Commission may not issue obligations under the Program until the Department has developed a strategic plan outlining how the proceeds of such Program obligations will be used and the benefits the State will derive from such use. The Department developed, and the Commission approved, the Texas Mobility Fund Strategic Plan (the “Strategic Plan”) in September of 2004. Pursuant to the Strategic Plan, the Commission intends to allocate: (i) a portion of proceeds of such Program obligations to preliminary project development costs, including issuance costs, right-of-way, engineer, design and other development costs; (ii) two-thirds of the remaining Program obligation proceeds to projects that measurably reduce congestion (“Mobility Projects”) (such as new roadway capacity or public transportation projects) which are located in the eight largest metropolitan areas of the State (Austin, Corpus Christi, Dallas-Fort Worth, El Paso, Hidalgo County, Houston-Galveston, Lubbock, and San Antonio); and (iii) one-third of the remaining Program obligation proceeds to fund Mobility Projects in small urban areas and projects which will promote Statewide connectivity.

The Commission expects to allocate proceeds of the Bonds in accordance with the Strategic Plan, but is not required to adhere to the two-thirds/one-third allocation described above with respect to proceeds of the Bonds. Projects in the eight metropolitan areas of the State selected for funding with Bond proceeds were approved by the Commission on October 28, 2004, through the approval of the mobility plans of the eight metropolitan planning organizations, which included \$21.5 billion in future transportation projects. Selection of the projects in the mobility plans that will be funded with Bond proceeds will be designated by a Department Representative at the time proceeds are drawn down by execution of a requisition certificate which will certify that the projects being funded with such proceeds are authorized Fund expenditures approved by the Commission. In its approval of the mobility plans, the Commission considered issues such as tolling/leveraging, system connectivity, safety, and economic development. The mobility plans of the eight metropolitan planning organizations are subject to review on a periodic basis (and such plans are currently under review) by each of the regional metropolitan planning organizations. The Commission expects to review the updated mobility plans of each metropolitan planning organization when they are presented for approval by the Commission. Pursuant to such periodic updates, new Mobility Projects may be added, Mobility Projects not yet funded may be deleted, and the ranking as to the priority of Mobility Projects by the Commission may change.

Anticipated Issuance of Additional Obligations

The Commission has reserved the right to issue or incur additional Parity Debt for any purpose authorized by law upon a finding by the Commission that, upon the issuance of such Parity Debt, the Security will be sufficient to meet the financial obligations relating to the Program, including Security in amounts sufficient to satisfy the Annual Debt Service Requirements of the Program. See “DESCRIPTION OF THE BONDS – Additional Parity Debt.” The Commission has also reserved the right to issue Non-Recourse Debt and obligations that are payable from the Fund but not secured on a first lien basis by the Security as “Subordinated Debt” obligations.

To the extent required by law, the Commission must also receive all required certifications of the Comptroller with respect to such additional obligations. Under current law, before obligations (including Parity Debt and Subordinated Debt) secured by revenues dedicated to and on deposit in the Fund may be issued, the Comptroller must certify that the projected Dedicated Revenues and money on deposit in the Fund, including projected investment earnings, during each year of the period during which such obligations will be outstanding,

will be equal to at least 110% of the debt service requirements of the proposed additional obligations and any already outstanding obligations in each year. The Comptroller has made such a certification with respect to the Bonds and the previously issued Outstanding Parity Debt. The Comptroller's certification was based upon the calculation of annual debt service, as certified by the Department's Chief Financial Officer in accordance with the "Annual Debt Service Requirements" as defined in the Master Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Other Sources of Payment – Table 4: Texas Mobility Fund Estimated Revenues."

Following the issuance of the Bonds, the Commission expects to issue additional Parity Debt in periodic installments of approximately \$1 billion every six to twelve months subject to capacity of the Security to meet such financial obligations as certified by the Comptroller. See "DESCRIPTION OF THE BONDS – Additional Parity Debt." In the event that the Commission issues or incurs additional Parity Debt in accordance with such expectations, the maximum aggregate principal amount of Parity Debt authorized to be outstanding at any time may need to be increased beyond the current maximum amount of \$4 billion established by the Master Resolution. The Master Resolution provides that the maximum aggregate principal amount of Parity Debt outstanding under the Program may be increased by the Commission upon a finding by the Commission that the Dedicated Revenues will be sufficient to pay all amounts to be payable from Dedicated Revenues following, and as a result of, such increase in the amount of Parity Debt authorized by the Master Resolution. Any such increase in the principal amount of the Program will not relieve the Commission from any other requirements of the Master Resolution relating to the issuance or incurrence of Parity Debt, including the requirement that the Commission receive all required certifications of the Comptroller with respect to the issuance of additional obligations secured by revenues dedicated to and on deposit in the Fund, as described in the preceding paragraph. To the extent that Dedicated Revenues increase in future years, the Commission expects to increase the maximum aggregate principal amount of Parity Debt authorized to be outstanding under the Program and to issue Parity Debt in reliance upon such increased capacity. See "DESCRIPTION OF THE BONDS – Additional Parity Debt." The Commission does not currently expect to issue or incur Non-Recourse Debt or Subordinated Debt.

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources

Par Amount of Bonds	\$150,000,000
Total	<u>\$150,000,000</u>

Uses

Deposit to Mobility Fund Bond Proceeds Account	\$149,460,241
Underwriter's Discount	191,212
Costs of Issuance	<u>348,547</u>
Total	<u>\$150,000,000</u>

DESCRIPTION OF THE BONDS

General

The Bonds will be issued in book-entry form pursuant to the book-entry-only system described in Appendix D. Beneficial owners of Bonds will not receive physical delivery of the bond certificates. The Bonds will be issued in fully registered form and will be dated December 1, 2006. The Bonds will be issued initially in the Initial Mode and will bear interest from the date of delivery at the Initial Rate, set forth on the cover of this Official Statement. Interest on the Bonds in the Initial Mode is payable on April 1, 2007 and September 5, 2007. **The Bonds are subject to mandatory tender for purchase on September 5, 2007 at a price of 100% of the principal amount thereof, plus accrued interest.** Thereafter, immediately following the Initial Mode, the Bonds will be converted to a Daily Mode or a Weekly Mode (unless the Commission elects to convert the Bonds to a Term Rate Mode, a Fixed Rate Mode, a Commercial Paper Mode or an Auction Rate Mode, as described herein). *Capitalized terms used and not defined in this Section have the meanings assigned to them as shown in APPENDIX B. All references to time in this Section are to Eastern Standard time or Eastern Daylight Savings time, as applicable.*

The Bonds may be converted from the Mode then prevailing to another Mode, as described herein. See “Determination of Interest Rate and Interest Rate Periods – Changes in Mode” herein. This Official Statement describes the Bonds only while in the Initial Mode, Daily Mode, Weekly Mode, Commercial Paper Mode, Term Rate Mode, or Fixed Rate Mode and is not intended to provide any information to prospective owners of the Bonds after conversion to an Auction Rate Mode. A Remarketing Memorandum will be issued prior to the conversion of any Bonds to an Auction Rate Mode.

Bonds issued in a Commercial Paper Mode, Initial Mode, Daily Mode, or Weekly Mode will be issued in denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof. Bonds issued in a Term Rate Mode or a Fixed Rate Mode will be issued in denominations of \$5,000 and any integral multiple thereof; provided, however, that if as a result of the change from a Term Rate Mode to a Commercial Paper Mode, Daily Mode, or Weekly Mode, it is not possible to deliver such converted Bonds in a denomination as described above, such Bonds may be delivered in different denominations.

The “Record Date” for Bonds is, with respect to Bonds issued in (i) a Commercial Paper Mode, the day (whether or not a Business Day) next preceding each Interest Payment Date; (ii) the Initial Mode, Daily Mode or the Weekly Mode, the opening of business on the Business Day next preceding an Interest Payment Date; or (iii) the Term Rate Mode or the Fixed Rate Mode, the 15th day (whether or not a Business Day) of the calendar month next preceding each Interest Payment Date.

Payment of the Bonds

Accrued and unpaid interest on the Bonds will be due on each Interest Payment Date and payable (i) in the case of Bonds in a Commercial Paper Mode, the Initial Mode, the Daily Mode, or the Weekly Mode, by wire transfer of immediately available funds to the account specified by the Owner in a written direction received by the Paying Agent/Registrar on or prior to a Record Date or, if no such account number is furnished, by check mailed by the Paying Agent/Registrar to the Owner at the address appearing on the books required to be kept by the Paying Agent/Registrar, and (ii) in the case of Bonds in the Term Rate Mode and Fixed Rate Mode, by check or draft mailed by the Paying Agent/Registrar to the Owner at the address appearing on the applicable Record Date in the books required to be kept by the Paying Agent/Registrar, except that in the case of an Owner of \$1,000,000 or more in aggregate principal amount of the Bonds, upon the written request of such Owner to the Paying Agent/Registrar, received on or prior to a Record Date, specifying the account or accounts to which such payment will be made, payment of interest when due will be made by wire transfer of immediately available funds. The principal and the redemption price on each Bond will be payable on its Principal Payment Date, upon surrender at the designated office for payment of the Paying Agent/Registrar and Tender Agent. The payment of the Purchase Price of Bonds on any Purchase Date or Mandatory Purchase Date, as the case may be, will be made by wire transfer in immediately available funds by the Tender Agent, or, if the Owner has not provided wire transfer instructions, by check mailed to the Owner at the address appearing in the books kept by the Paying Agent/Registrar.

The Interest Payment Dates with respect to the Bonds are: (i) any Principal Payment Date or Mode Change Date; (ii) with respect to Bonds in the Initial Mode, April 1, 2007 and September 5, 2007; (iii) with respect to Bonds in a Commercial Paper Mode, the Business Day following the last date of the Interest Period; (iv) with respect to Bonds issued in a Daily Mode and the Weekly Mode, the first Business Day of each calendar month; (v) with respect to Bonds issued in the Term Rate Mode, each April 1 and October 1 prior to the Purchase Date, and the Purchase Date; (vi) with respect to Bonds issued in the Fixed Rate Mode, each April 1 and October 1; provided, however, that such Interest Payment Dates may be changed in connection with the conversion to the Fixed Rate Mode upon receipt of a Favorable Opinion of Bond Counsel; and (vii) with respect to Bonds purchased by the Liquidity Facility Issuer (“Purchased Bonds”), the dates provided in the Liquidity Facility.

Interest Calculation

Interest on the Bonds that are in the Initial Mode, Commercial Paper Mode, the Daily Mode, or Weekly Mode will be calculated on the basis of a 365/366-day year for the actual number of days elapsed to the Interest Payment Date. Interest on Bonds in the Term Rate Mode or Fixed Rate Mode will be calculated on the basis of a 360-day year composed of twelve 30-day months. No Bonds may bear interest at a rate higher than the Maximum Rate.

Determination of Interest Rate and Interest Rate Periods

Initial Mode. The Bonds shall initially bear interest at the Initial Rate, set forth on the cover of this Official Statement, for the Initial Mode. At the end of the Initial Mode (September 5, 2007), the Bonds shall be subject to mandatory tender, without right of retention. Thereafter, the Bonds shall bear interest in the Daily Mode or the Weekly Mode, unless a different Mode is designated by the Department Representative. The Initial Rate shall be the rate of interest per annum determined by the Remarketing Agent as the minimum rate of interest that, in the sole judgment of the Remarketing Agent, would, under the existing market conditions, result in the sale of the Bonds in the Initial Mode at a price equal to the principal amount thereof, plus accrued interest, if any. The determination of the Initial Rate by the Remarketing Agent shall be conclusive and binding, in the absence of manifest error, upon the Remarketing Agent, the Tender Agent, the Paying Agent/Registrar, the Liquidity Facility Issuer, the Commission and the Owners of the Bonds.

Weekly Mode. The interest rate for the Bonds in the Weekly Mode for each Interest Period will be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest that, in the sole judgment of the Remarketing Agent, would, under then existing marketing conditions, result in the sale of the Bonds in the Weekly Mode on the Rate Determination Date at a price equal to the principal amount thereof, plus accrued interest, if any. The Rate Determination Date for any Interest Period beginning on any Mode Change Date will be the Business Day immediately preceding the Mode Change Date; and for other Interest Periods thereafter, each Tuesday or, if such Tuesday is not a Business Day, the Business Day next succeeding such Tuesday. The Remarketing Agent will make the rate available to the Commission, the Paying Agent/Registrar and the Tender Agent by 4:00 p.m. on the Business Day immediately succeeding the Rate Determination Date. The Interest Period for Bonds in the Weekly Mode will begin on and include each Wednesday, and continue through and including the next succeeding Tuesday.

Commercial Paper Mode. The Interest Period for Bonds issued in a Commercial Paper Mode will be at least one day and not more than 270 days, ending on a day next preceding a Business Day or the Maturity Date, as the Remarketing Agent will determine; provided, however, no Interest Period will extend beyond the date which is five days prior to the Expiration Date of the Liquidity Facility. In making the determinations with respect to Interest Periods, subject to the limitations described above, the Remarketing Agent will on each Rate Determination Date select for each Bond then subject to such adjustment the Interest Period which, if implemented on the Rate Determination Date, would result in the Remarketing Agent being able to remarket such Bond at par in the secondary market at the lowest interest rate then available and for the longest Interest Period available at such rate; provided, however, that if on any Rate Determination Date, the Remarketing Agent determines that current or anticipated future market conditions or anticipated future events are such that a different Interest Period would result in a lower average interest cost on such Bond, then the Remarketing Agent will select the Interest Period which, in the judgment of the Remarketing Agent, would permit such Bond to achieve such lower average interest cost; provided, however, that if the Remarketing Agent has received notice from the Commission that any Bond is to be changed from the Commercial Paper Mode to any other Mode or if it is to be mandatorily purchased upon the expiration, termination, or substitution of the Liquidity Facility, the Remarketing Agent will, with respect to such Bond, select an Interest Period which will not extend beyond the Mandatory Purchase Date. By 1:00 p.m. on each Rate Determination Date, the Remarketing Agent will, with respect to each Bond in Commercial Paper Mode (a "Commercial Paper Rate Bond") that is subject to adjustment on such date, determine an interest rate for the Interest Period then selected for such Commercial Paper Rate Bond and, no later than 1:00 p.m., will give notice by Electronic Means to the Commission, the Paying Agent/Registrar and the Tender Agent of the applicable Interest Period, Purchase Date, and interest rate. The Rate Determination Date for Commercial Paper Rate Bonds is the first day of each Interest Period. By acceptance of any Commercial Paper Rate Bond, the Owner thereof will be deemed to have agreed, during each Interest Period, to the interest rate (including the Alternate Rate, if applicable), Interest Period, and Purchase Date then applicable thereto and to have further agreed to tender such Commercial Paper Rate Bond to the Tender Agent for purchase on the next succeeding Purchase Date at the Purchase Price. Such Owner further acknowledges that if funds for such purchase are on deposit with the Tender Agent on such Purchase Date, such Owner will have no rights under the Master Resolution or the Fifth Supplemental Resolution other than to receive the payment of such Purchase Price and that interest will cease to accrue to such Owner on such Purchase Date.

Daily Mode. The interest rate for any Bond in the Daily Mode will be the rate of interest per annum determined by the Remarketing Agent on or before 10:00 a.m. on each Business Day (the "Rate Determination Date" for Bonds in Daily Mode), as the minimum rate of interest that, in the sole judgment of the Remarketing Agent, would, under then existing market conditions, result in the sale of the Bonds in the Daily Mode on the Rate Determination Date at a price equal to the principal amount thereof, plus accrued interest, if any. The Remarketing Agent will make the rate available to the Commission, the Paying Agent/Registrar, and the Tender Agent by Electronic Means by 11:00 a.m., on the Rate Determination Date. With respect to any day that is not a Business Day, the interest rate will be the same rate as the interest rate established for the immediately preceding Business Day.

Term Rate Mode and Fixed Rate Mode.

Term Rate Mode. The interest rate to be effective for the Interest Period commencing on any Mode Change Date after which the Bonds will bear interest at a Term Rate, or any Purchase Date while Bonds are in the Term Rate Mode will be determined by the Remarketing Agent. No later than 4:00 p.m. on the Business Day next preceding the Mode Change Date or the Purchase Date, as the case may be, the Remarketing Agent will determine the Term Rate and will make the Term Rate available by Electronic Means to the Commission, the Paying Agent/Registrar, and the Tender Agent. The Term Rate will be the minimum rate that, in the sole judgment of the Remarketing Agent, would result in a sale of the Bonds at a price equal to the principal amount thereof on the Rate Determination Date taking into consideration the duration of the Interest Period, which will be established by the Commission acting through the Department Representative. The Rate Determination Date is each Business Day prior to the first day of an Interest Period.

Fixed Rate Mode. The interest rate to be effective for the Interest Period commencing on any Mode Change Date after which the Bonds will bear interest at a Fixed Rate will be determined by the Remarketing Agent. No later than 4:00 p.m. on the Business Day next preceding the Mode Change Date, the Remarketing Agent will determine the Fixed Rate and will make the Fixed Rate available by Electronic Means to the Commission, the Paying Agent/Registrar, and the Tender Agent. The Fixed Rate will be the minimum rate that, in the sole judgment of the Remarketing Agent, would result in a sale of the Bonds at a price equal to the principal amount thereof on the Rate Determination Date taking into consideration the duration of the Interest Period. The Rate Determination Date is the Business Day prior to the first day of an Interest Period.

Failure to Establish Term Rate or Fixed Rate. If, for any reason, a Term Rate or Fixed Rate cannot be established on a Purchase Date, the Bonds will be changed automatically to the Weekly Mode on the Purchase Date if a Liquidity Facility is in effect.

Alternative Rate. If the Remarketing Agent fails to determine the interest rates or Interest Periods with respect to the Bonds or if the method of determining the interest rates or Interest Periods with respect to the Bonds is held to be unenforceable by a court of law of competent jurisdiction, then the Bonds will (until such time as the Remarketing Agent again makes such determination, or until there is delivered to the Commission and the Remarketing Agent a Favorable Opinion of Bond Counsel) bear interest and operate as follows: the Bonds constituting maturing Commercial Paper Rate Bonds will be converted to the Weekly Mode and Bonds in the Daily Mode, Term Rate Mode and Weekly Mode, bear interest at the Alternate Rate for subsequent weekly periods.

The determination of the interest rate for the Bonds for each Interest Period by the Remarketing Agent will be conclusive and binding, in the absence of manifest error, upon the Remarketing Agent, the Tender Agent, the Paying Agent/Registrar, the Liquidity Facility Issuer, the Commission, and the Owners of the Bonds.

Until remarketed, Bonds that constitute Purchased Bonds will bear interest at the Purchased Bond Rate and will be payable at such times and in such manner as set forth in the Liquidity Facility.

Changes in Mode.

General. Any Mode, other than a Fixed Rate Mode, may be changed to any other Mode at the times and in the manner described below. Any Bonds converted to a Fixed Rate Mode may not be changed to any

other Mode unless Bonds are purchased in lieu of redemption by the Commission and subsequently converted to another Mode.

Notice of Intention to Change Mode. The Commission will give written notice of its intention to effect a change in the Mode from the Mode then prevailing (the “Current Mode”) to another Mode (the “New Mode”) specified in such written notice, together with the proposed Mode Change Date. Such notice will be given at least 20 days prior to the Mode Change Date if the Current Mode is the Initial Mode, Daily Mode, the Weekly Mode, or the Commercial Paper Mode, and such notice will be given at least 35 days prior to the Mode Change Date if the Current Mode is the Term Rate Mode with a duration of six months or more.

Serial Bonds. The Commission may, in connection with any Mode change to the Term Rate Mode or Fixed Rate Mode, provide for serial maturities of all or some of the Bonds subject to such Mode change. The principal amount of and interest on such serial bonds and the maturity dates thereof will be set forth in the notice given with respect to such Mode change. The interest rate for such serial bonds maturing on a particular date may be different from the interest rate or rates established for other Bonds.

No Partial Mode Changes. All Bonds must be in the same Mode; provided, however, that in the event that the Bonds are issued or converted or remarketed in subseries bearing additional designations in accordance with the Fifth Supplemental Resolution, Bonds of any such subseries will be in the same Mode and references to the Bonds will be deemed to refer to Bonds of such subseries, all as will be set forth in the applicable certificate of a Department Representative; and, provided, further, that in the event that the Bonds are converted or remarketed in subseries, the Commission shall obtain prior written confirmation from each Rating Agency that the then current ratings of the Bonds will not be reduced or withdrawn.

Conditions Precedent. No change in Mode will become effective unless all conditions precedent thereto have been met and the following items have been delivered to the Paying Agent/Registrar and the Remarketing Agent two Business Days prior to the Mode Change Date, or such later time as is acceptable to the Commission, the Paying Agent/Registrar, the Broker-Dealer, and the Remarketing Agent:

(a) A favorable opinion of Bond Counsel dated the Mode Change Date, except in circumstances where there is a failure to establish a Term or Fixed Rate (see “– *Determination of Interest Rate and Interest Rate Periods* – Term Rate Mode and Fixed Rate Mode”) or a change from the Initial Mode to the Daily Mode or the Weekly Mode that immediately follows the Initial Mode.

(b) With respect to a change in Mode to the Daily Mode, Weekly Mode, Commercial Paper Rate Mode or Term Rate Mode of less than one year, a Liquidity Facility with the necessary Liquidity Amount for such New Mode.

If all conditions to the Mode Change are met, the Interest Period(s) for the New Mode will commence on the Mode Change Date and the Interest Rates will be determined by the Remarketing Agent as provided for in the Fifth Supplemental Resolution.

Redemption Provisions

Optional Redemption.

Initial Mode. Bonds in the Initial Mode are not subject to optional redemption.

Commercial Paper Mode. Bonds in the Commercial Paper Mode will be subject to redemption at the option of the Commission (acting through the Department Representative), in whole or in part, on their respective Purchase Dates at a redemption price equal to the principal amount thereof, plus accrued interest to the Redemption Date.

Daily Mode or Weekly Mode. Bonds in the Daily Mode or Weekly Mode will be subject to redemption at the option of the Commission (acting through the Department Representative), in whole or in part, on

any Business Day, at a redemption price equal to the principal amount thereof plus accrued interest to the Redemption Date.

Term Rate Mode With Term of Less Than Four Years. Bonds in a Term Rate Mode during an Interest Period that is less than four years will be subject to redemption at the option of the Commission (acting through the Department Representative), in whole or in part on their individual Purchase Dates, at a redemption price equal to the principal amount thereof plus interest accrued to the Redemption Date.

Term Rate Mode With Term of Four Years or Greater and Fixed Rate Mode. Bonds in the Term Rate Mode during an Interest Period that is equal to or greater than four years or Bonds in the Fixed Rate Mode are subject to redemption at the option of the Commission (acting through the Department Representative), in whole or in part, on any date following the No Call Period at the redemption prices, plus accrued interest, as set forth below:

<u>Duration of Interest Period in Term Rate Mode or Fixed Rate Mode</u>	<u>No Call Period (commencing on the date of commencement of the Term Rate Mode or Fixed Rate Mode Interest Period)</u>	<u>Redemption Price</u>
Greater than or equal to 11 years	8 years	100%
Greater than or equal to 8 years and less than 11 years	6 years	100%
Greater than or equal to 4 years and less than 8 years	3 years	100%
Duration of Interest Period in Fixed Rate Mode is less than 4 years	Subject to optional redemption at any time	100%

Mandatory Redemption. The Bonds will be subject to redemption prior to maturity on April 1 of such years and in such principal amounts as set forth in the following schedule:

<u>Redemption Date (April 1)</u>	<u>Principal Amount</u>
2035	\$ 19,890,000
2036*	130,110,000

* Stated Maturity

Redemption in Part. In the event of redemption of less than all the Bonds, the Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar by lot in such manner as the Paying Agent/Registrar in its discretion may determine; provided, however, that the Bonds to be redeemed will be in Authorized Denominations; and provided, further, that any Bonds which are Purchased Bonds will be redeemed prior to any other Bonds.

Redemption of Purchased Bonds. Purchased Bonds are subject to redemption, at the option of the Commission (acting through a Department Representative), in whole or in part on any Business Day, at a redemption price equal to the principal amount of the Purchased Bonds to be redeemed plus accrued interest thereon to the redemption date. Purchased Bonds are also subject to mandatory redemption in accordance with the terms of the Liquidity Facility. If less than all of the Bonds are to be redeemed, the Commission is required to redeem all Purchased Bonds prior to the redemption of any other Bonds.

Notice of Redemption. Unless waived by any Owner of the Bonds, the Commission will give notice of redemption or defeasance to the Paying Agent/Registrar at least 35 days prior to a redemption date in the case of a redemption of Bonds (unless a lesser period is acceptable to the Paying Agent/Registrar) and on the defeasance date in the case of a defeasance of Bonds and the Paying Agent/Registrar will give notice of redemption or of defeasance of Bonds by United States mail, first-class, postage prepaid at least 30 days prior to a redemption date and within 30 days after a defeasance date to each registered securities depository and to any national information service that disseminates such notices. In addition, in the event of a redemption caused by an advance refunding of the Bonds,

the Paying Agent/Registrar will send a second notice of redemption to the persons specified in the immediately preceding sentence at least 30 days but not more than 90 days prior to the actual redemption date. Any notice sent to the registered securities depositories or such national information services will be sent so that it is received at least two days prior to the general mailing or publication date of such notice. The Paying Agent/Registrar will also send a notice of prepayment or redemption to the Owner of any Bond who has not sent the Bonds in for redemption 60 days after the redemption date.

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Fifth Supplemental Resolution have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the Commission, be conditional upon the satisfaction of such prerequisites and receipt of such money 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 are not fulfilled, such notice will be of no force and effect, the Commission will not redeem such Bonds, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

Limitation on Transfer of Bonds Called for Redemption. Neither the Commission nor the Paying Agent/Registrar will be required to issue or transfer to an assignee of an Owner any Bond called for redemption, in whole or in part, within 45 days of the date fixed for the redemption of such Bond; provided, however, that such limitation of transfer will not be applicable to (i) an exchange by the Owner of the unredeemed balance of a Bond called for redemption in part or (ii) the issuance or transfer of a Bond that is subject to optional or mandatory tender.

Redemption Through The Depository Trust Company. The Paying Agent/Registrar and the Commission, so long as a 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 herein), or of any Direct Participant or Indirect Participant (defined herein) to notify the Beneficial Owner (defined herein), 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. Any such selection of Bonds to be redeemed will not be governed by the Fifth Supplemental 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 D – Book-Entry Only System."

Tenders and Purchases

The Initial Liquidity Facility Issuer has agreed to purchase, in accordance with the terms therein, the Bonds that bear interest at the Initial Mode, a Daily Mode or Weekly Mode only. The Initial Liquidity Facility must be amended or an Alternate Liquidity Facility obtained for the Purchase and Mandatory Purchase provisions described herein for modes other than the Initial Mode, Daily Mode or Weekly Mode to be applicable.

With respect to the Bonds tendered for purchase, the "Purchase Price" is equal to 100% of the principal amount of Bonds so tendered, plus accrued interest, if any, to and including the date of such purchase; provided, however, if the purchase is made on an Interest Payment Date, the Purchase Price will not include accrued but unpaid interest; and provided further, however, that the Purchase Price will not include premium in the case of Bonds subject to mandatory tender for purchase on a date when such Bonds are also subject to optional redemption at a premium. The "Purchase Date" for Bonds in the Commercial Paper Mode, the Term Rate Mode, or the Fixed Rate Mode is the Business Day after the last day of the Interest Period applicable, for Bonds in the Daily Mode or Weekly Mode, any Business Day on which such Bonds are tendered or deemed tendered for purchase; and, for

Bonds in the Initial Mode, September 5, 2007. THE COMMISSION WILL HAVE NO OBLIGATION TO TRANSFER ANY FUNDS OR MONEY TO THE TENDER AGENT FOR THE PAYMENT OF THE PURCHASE PRICE OF THE BONDS ON A PURCHASE DATE OR A MANDATORY PURCHASE DATE, AND THE FAILURE OF THE COMMISSION TO TRANSFER SUCH FUNDS WILL NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE FIFTH SUPPLEMENTAL RESOLUTION.

Optional Tenders of Bonds in Weekly Mode. The Owners of Bonds in a Weekly Mode may elect to have such Bonds (or portions thereof in an Authorized Denomination) purchased at a price equal to the Purchase Price upon delivery of an irrevocable written notice to the Tender Agent and Remarketing Agent by Electronic Means at their respective designated offices, not later than 4:00 p.m. on a Business Day not less than seven days before the Purchase Date specified by the Owner. Such notice will (i) state the CUSIP number and the principal amount of such Bonds being tendered and (ii) state that such Bonds will be purchased on the Purchase Date so specified by the Owner. The Tender Agent will notify the Paying Agent/Registrar by the close of business on the next succeeding Business Day of the receipt of any such notice.

Owners will not have the right to optional tender so long as there exists an Immediate Termination Event or Suspension Event (both as defined in the Liquidity Facility). See “– The Initial Liquidity Facility” below.

Optional Tenders of Bonds in Daily Mode. Any Bond (or portions thereof in an Authorized Denomination) in the Daily Mode is subject to purchase, on the demand of the Owner thereof, at a price equal to the Purchase Price on any Business Day (such purchase to be made on the Business Day upon which such demand is made), upon irrevocable notice to the Tender Agent and the Remarketing Agent by Electronic Means not later than 11:00 a.m. on the Purchase Date therefor, at their respective designated offices) which states the CUSIP number and principal amount of such Bond being tendered and the Purchase Date. Such tender notice, once transmitted to the Tender Agent, will be irrevocable with respect to the tender for which such tender notice was delivered and such tender will occur on the Business Day specified in such Tender Notice. The Tender Agent will, as soon as practicable, notify the Paying Agent/Registrar of the principal amount of Bonds being tendered.

Owners will not have the right to optional tender so long as there exists an Immediate Termination Event or Suspension Event (both as defined in the Liquidity Facility). See “– The Initial Liquidity Facility” below.

No Optional Tender of Bonds in Initial Mode. The Bonds are not subject to optional tender while in the Initial Mode.

Notice of Tender and Ownership of Bonds. During any period that the Bonds are registered in the name of DTC or a nominee thereof, (i) any notice of tender delivered must also (a) provide evidence satisfactory to the Tender Agent and the Remarketing Agent that the party delivering the notice is the beneficial owner or a custodian for the beneficial owner of the Bonds referred to in the notice, and (b) if the beneficial owner is other than a DTC participant, identify the DTC participant through whom the beneficial owner will direct transfer; (ii) on or before the Purchase Date, the beneficial owner must direct (or if the beneficial owner is not a DTC participant, cause its DTC participant to direct) the transfer of said Bonds on the records of DTC; and (iii) it will not be necessary for Bonds to be physically delivered on the date specified for purchase, but such purchase will be made as if such Bonds had been so delivered, and the Purchase Price will be paid to DTC.

Mandatory Purchase of the Bonds upon Expiration Date, Termination Tender Date, and Substitution Date. The Bonds will be subject to mandatory tender for purchase on: (i) the second Business Day preceding the Expiration Date of a Liquidity Facility, which second Business Day is hereinafter referred to as an “Expiration Tender Date;” (ii) the fifth calendar day (or if such day is not a Business Day, the preceding Business Day) preceding the Termination Date of a Liquidity Facility, which day is hereinafter referred to as a “Termination Tender Date,” if the Liquidity Facility permits a draw thereon on the Termination Tender Date; and (iii) the Substitution Date for a Liquidity Facility.

Mandatory Purchase of Commercial Paper Rate Bonds. Each Bond in the Commercial Paper Mode is subject to mandatory tender for purchase on its Purchase Date at the Purchase Price. No notice of such mandatory purchase will be given to the Owners of such Bonds.

Mandatory Purchase on any Mode Change Date. The Bonds to be changed to any Mode from any other Mode are subject to mandatory tender for purchase on the Mode Change Date at the Purchase Price.

Mandatory Purchase at End of Term Rate Period or When Bonds in the Fixed Rate Mode are Subject to Optional Redemption.

Term Rate Mode. Bonds in the Term Rate Mode are subject to mandatory tender for purchase on each Purchase Date at the Purchase Price; provided, however, that if Bonds in the Term Rate Mode with a duration of either six months or 12 months continue for an equal duration after the Purchase Date, the Owners of such Bonds may elect to continue to hold such Bonds by providing notice of retention of such Bonds in writing to the Tender Agent at least 35 days prior to the Purchase Date.

Fixed Rate Mode. Any Bond in a Fixed Rate Mode which is subject to optional redemption may be subject, at the option of the Commission, to mandatory purchase in lieu of redemption on the date of redemption. Subject to receipt of a Favorable Opinion of Bond Counsel, such Bonds may be converted to such Mode as the Department Representative directs.

Notice of Mandatory Tender for Purchase. The Tender Agent will, at least 15 calendar days prior to the Expiration Tender Date, give notice to the Owners, the Liquidity Facility Issuer, and the Remarketing Agent of the mandatory tender of the Bonds on such Expiration Tender Date, if the Tender Agent has not received confirmation that the Expiration Date has been extended.

The Tender Agent will, at least 15 calendar days prior to the Termination Tender Date with respect to Bonds, give notice to the Owners, the Liquidity Facility Issuer, and the Remarketing Agent of the mandatory tender of the Bonds on such Termination Tender Date if it has not received a notice executed by the Commission and the provider in connection with a Liquidity Facility stating that the event which resulted in the establishment of the Termination Tender Date has been cured.

The Tender Agent will, at least 30 calendar days prior to any Substitution Date with respect to a Liquidity Facility relating to any Bonds, give notice to the Owners, the Liquidity Facility Issuer, and the Remarketing Agent of the mandatory tender of such Bonds on such Substitution Date.

The Tender Agent will, at least 30 calendar days prior to any Purchase Date for Bonds in a Term Rate Mode or any Mode Change Date if the Current Mode is the Term Rate Mode, and at least 15 days prior to any Mode Change Date if the Current Mode is the Initial Mode, Daily Mode, the Weekly Mode, or the Commercial Paper Mode, give notice to the Owners and each other Notice Party of the mandatory tender for purchase of such Bonds on such Purchase Date or Mode Change Date, as applicable.

Remarketing of Bonds. Subject to the terms of the Remarketing Agreement, the Remarketing Agent will offer for sale and use its best efforts to find purchasers for (i) all Bonds or portions thereof as to which notice of tender has been given, (ii) all Bonds required to be tendered for purchase, and (iii) all Purchased Bonds. Bonds will be remarketed at 100% of principal thereof plus accrued interest thereon. No Bonds shall be remarketed for sale to the Commission or in the Daily Mode, Weekly Mode, Commercial Paper Rate Mode or Term Rate Mode of less than one year following an Expiration Tender Date or a Termination Tender Date until an Alternate Liquidity Facility has been obtained by the Commission. See “—The Remarketing Agent and The Remarketing Agreement” below.

Notice of Remarketing. The Remarketing Agent will notify the Tender Agent by Electronic Means not later than 12:00 noon on the Purchase Date or Mandatory Purchase Date of the registration instructions (i.e., the names of the tendering Owners and the names, addresses, and taxpayer identification numbers of the purchasers, the desired Authorized Denominations and, in the case of Bonds in the Commercial Paper Mode, the Daily Mode, or the Weekly Mode, any account number for payment of principal and interest furnished by a purchaser to the Remarketing Agent).

Unless otherwise permitted by DTC and the book-entry-only system applicable to the Bonds, the Tender Agent will authenticate and have available for delivery to the Remarketing Agent prior to 1:30 p.m. on the Purchase Date or Mandatory Purchase Date new Bonds for the respective purchasers.

On the Business Day immediately preceding the Purchase Date or Mandatory Purchase Date, the Tender Agent will notify the Liquidity Facility Issuer by Electronic Means of the principal amount of Bonds (other than Bonds in the Daily Mode) to be tendered on the next Business Day for which, as of 4:00 p.m. on the immediately preceding Business Day, the Remarketing Agent did not have commitments for purchase pursuant to notice received from the Remarketing Agent; provided, however, that the failure of the Remarketing Agent or Tender Agent to provide such notice will not, in and of itself, negate the obligation of the Liquidity Facility Issuer to purchase Bonds in accordance with and subject to the terms and provisions of the Liquidity Facility.

Transfer of Funds. The Remarketing Agent will, at or before 12:00 p.m. on the Purchase Date or Mandatory Purchase Date, as the case may be, (a) notify the Commission and the Tender Agent by Electronic Means of the amount of tendered Bonds that were not successfully remarketed, and (b) confirm to the Tender Agent the transfer of the Purchase Price of remarketed Bonds to the Tender Agent in immediately available funds with such confirmation to include the pertinent Fed Wire reference number.

In the event that all of the tendered Bonds (and Bonds that are deemed tendered) are not successfully remarketed, the Tender Agent will at or before 12:30 p.m. on the Purchase Date or Mandatory Purchase Date, as the case may be, notify the Liquidity Facility Issuer, in accordance with the terms of the Liquidity Facility, by Electronic Means, of the amount necessary to be drawn upon the Liquidity Facility to pay the Purchase Price of such tendered Bonds (and Bonds that are deemed tendered) (for which remarketing proceeds are not then on deposit in the Purchase Fund) not successfully remarketed. No drawings under the Liquidity Facility will be made for Bonds held by or on behalf of the Commission, or for Purchased Bonds.

The Liquidity Facility Issuer will cause to be transferred to the Tender Agent immediately available funds by 2:30 p.m. on the Purchase Date or Mandatory Purchase Date, as the case may be, in an amount equal to the Purchase Price requested by the Tender Agent. Immediately available funds received by the Tender Agent from the amount payable under the Liquidity Facility must be deposited (to the extent a deposit of such funds is necessary) into an account within the fund designated the "Texas Transportation Commission State of Texas General Obligation Mobility Fund Bonds, Series 2006-B (Multi-Modal Bonds) Purchase Account" until applied.

Sources of Funds for Purchase of Bonds. On or before the close of business on the Purchase Date or the Mandatory Purchase Date with respect to Bonds, the Tender Agent will purchase such Bonds from the Owners at the Purchase Price. Funds for the payment of such Purchase Price will be derived in the order of priority indicated below:

- (i) Immediately available funds transferred by the Remarketing Agent to the Tender Agent derived from the remarketing of the Bonds by the Remarketing Agent; and
- (ii) Immediately available funds transferred to the Tender Agent from amounts available under the Liquidity Facility.

THE COMMISSION WILL HAVE NO OBLIGATION TO TRANSFER ANY FUNDS TO THE TENDER AGENT FOR THE PAYMENT OF THE PURCHASE PRICE OF THE BONDS ON A PURCHASE DATE OR A MANDATORY PURCHASE DATE, AND THE FAILURE OF THE COMMISSION TO TRANSFER SUCH FUNDS WILL NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE RESOLUTION.

Delivery of the Bonds. Except as otherwise required or permitted by the book-entry-only system of DTC, the Bonds sold by the Remarketing Agent will be delivered by the Remarketing Agent to the purchasers of those Bonds by 3:00 p.m., on the Purchase Date or the Mandatory Purchase Date, as the case may be. The Bonds purchased with money provided by the Liquidity Facility Issuer will be delivered at the direction of the Liquidity Facility Issuer or as otherwise provided in the Liquidity Facility. The Purchased Bonds will not be released upon

remarketing until the Tender Agent has received written notice from the Liquidity Facility Issuer that the principal commitment and interest commitment of the Liquidity Facility have been reinstated.

Delivery and Payment for Purchased Bonds; Undelivered Bonds. Except as otherwise required or permitted by the book-entry-only system of DTC, the Bonds purchased will be delivered (with all necessary endorsements) at or before 12:00 noon on the Purchase Date or Mandatory Purchase Date, as the case may be, at the office of the Tender Agent in New York, New York; provided, however, that payment of the Purchase Price of Bonds purchased will be made only if such Bonds so delivered to the Tender Agent conform in all respects to the description thereof in the notice of tender. Payment of the Purchase Price will be made by wire transfer in immediately available funds by the Tender Agent by 3:00 p.m. on the Purchase Date or Mandatory Purchase Date, as the case may be, or, if the Owner has not provided or caused to be provided wire transfer instructions, by draft or check mailed to the Owner at the address appearing in the books required to be kept by the Tender Agent. If Bonds to be purchased are not delivered by the Owners to the Tender Agent by 12:00 noon on the Purchase Date or the Mandatory Purchase Date, as the case may be, the Tender Agent will hold any funds received for the purchase of those Bonds in trust in a separate account within the Purchase Account and will pay such funds to the former Owners upon presentation of the Bonds subject to tender. Such undelivered Bonds will be deemed tendered and cease to accrue interest as to the former Owners on the Purchase Date or the Mandatory Purchase Date, as the case may be, and money representing the Purchase Price will be available against delivery of those Bonds at the designated office of the Tender Agent; provided, however, any funds so held by the Tender Agent and which remain unclaimed by the former Owner of any such Bond not presented for purchase for a period of two years after delivery of such funds to the Tender Agent, will, to the extent permitted by law, upon request in writing by the Commission and the furnishing of security or indemnity to the Tender Agent's satisfaction, be paid to the Commission free of any trust or lien and thereafter the former Owner of such Bond will look only to the Commission and then only to the extent of the amounts so received by the Commission without any interest thereon and the Tender Agent will have no further responsibility with respect to such money or payment of the Purchase Price of such Bonds. The Tender Agent will authenticate a replacement Bond for any undelivered Bond which may then be remarketed by the Remarketing Agent or purchased by the Liquidity Facility Issuer.

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is Wells Fargo Bank, N.A. (the "Paying Agent/Registrar"). The Commission agrees and covenants to cause to be kept and maintained by the Paying Agent/Registrar a Security Register, in accordance with the terms and provisions of the Paying Agent/Registrar Agreement and such reasonable rules and regulations as the Paying Agent/Registrar and the Commission may prescribe.

The Commission expressly reserves the right to appoint one or more successor Paying Agent/Registrars, by filing with the Paying Agent/Registrar a certified copy of a resolution or minute order of the Commission making such appointment. The Commission further expressly reserves the right to terminate the appointment of the Paying Agent/Registrar by filing a certified copy of a resolution or minute order of the Commission giving notice of the Commission's termination of the Commission's agreement with such Paying Agent/Registrar and appointing a successor. The Commission covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are paid and discharged, and any successor Paying Agent/Registrar will be a bank, trust company, financial institution, or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. If a Paying Agent/Registrar is replaced, such Paying Agent/Registrar, promptly upon the appointment of the successor, will deliver the Security Register (or a copy thereof) and all other pertinent books and records relating to the Bonds to the successor Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar, the Commission agrees promptly to cause a written notice thereof to be sent to each Owner by United States mail, first-class postage prepaid, which notice will also give the address of the new Paying Agent/Registrar.

Transfer, Exchange, and Registration

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

instrument of transfer or request for exchange duly executed by the Owner or by his duly authorized agent, in form satisfactory to the Paying Agent/Registrar.

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

At the option of the Owner, the Bonds may be exchanged for other Bonds of Authorized Denominations and having the same Maturity, bearing the same rate of interest, and of like tenor and aggregate principal amount and series 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 Fifth Supplemental Resolution will be made without expense or service charge to the Owner, except as otherwise provided in the Fifth Supplemental 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 Fifth Supplemental Resolution.

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.

See "APPENDIX D – Book-Entry-Only System" for a description of the system to be utilized initially in regard to the ownership and transferability of the Bonds.

Amendments to Fifth Supplemental Resolution Without Consent of Owners

Subject to the provisions of the Master Resolution, the Fifth Supplemental Resolution, and the rights and obligations of the Commission and of the Owners of the Bonds (including, with respect to the Bonds, the Purchased Bonds), the Fifth Supplemental Resolution may be modified or amended at any time without notice to or the consent of any Owner of the Bonds (including, with respect to the Bonds, the Purchased Bonds, or any other Parity Debt) solely for any one or more of the following purposes: (i) to add to the covenants and agreements of the Commission contained in the Fifth 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 the Fifth Supplemental Resolution; (ii) to cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in the Fifth 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 the Fifth Supplemental Resolution; (iii) to supplement the Security for the Bonds; (iv) to make such other changes in the provisions of the Fifth Supplemental Resolution, as

the Commission may deem necessary or desirable and which will not, in the judgment of the Commission, materially adversely affect the interests of the Owners of the Outstanding Bonds; (v) 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 Parity Debt; (vi) 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 (vii) to make any changes or amendments that take effect after a mandatory tender of the Bonds if there is delivered to the Commission a Favorable Opinion of Bond Counsel.

Amendments to Fifth Supplemental Resolution With Consent of Owners

Subject to the other provisions of the Fifth Supplemental Resolution and the Master Resolution, the Owners of Outstanding Bonds aggregating a majority in Outstanding Principal Amount of the Bonds have the right from time to time to approve any amendment, other than amendments described in the immediately preceding section, to the Fifth Supplemental Resolution that may be deemed necessary or desirable by the Commission; provided, however, that this may not be construed to permit, without the approval of the Owners of all of the Outstanding Bonds, including Purchased Bonds, if applicable, the amendment of the terms and conditions in the Fifth Supplemental Resolution or in the Bonds, including Purchased Bonds, if applicable, so as to: (i) make any change in the maturity of the Outstanding Bonds; (ii) reduce the rate of interest borne by the Outstanding Bonds; (iii) reduce the amount of the principal payable on the 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 of the Bonds then Outstanding; or (vi) change the minimum percentage of the Outstanding Principal Amount of the Bonds necessary for consent to such amendment.

Prior to the effective date of any such amendment, a copy of such amendment will be promptly furnished to the rating agencies then rating the Bonds, the Paying Agent/Registrar and the Liquidity Facility Issuer.

Notice of a proposed amendment requiring consent of the Owners must 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 publication is not required, however, if the Commission gives or causes to be given such notice in writing to each Owner of the Bonds. A copy of such notice must be provided in writing to each rating agency maintaining a rating on the Bonds.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood while the Bonds are in the book-entry-only System, references in other sections of this Official Statement to 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 Owners under the Resolution will be given only to DTC.

Additional Parity Debt

In the Master Resolution, the Commission has reserved the right to issue or incur additional Parity Debt for any purpose authorized by law. Prior to the issuance of such additional Parity Debt, the Commission must find that, upon the issuance of such Parity Debt, the Security will be sufficient to meet the financial obligations relating to the Program, including Security in amounts sufficient to satisfy the Annual Debt Service Requirements of the Program. In addition, to the extent then required by law, the Commission must receive all required certifications of the Comptroller with respect to such additional Parity Debt. Under current law, before additional obligations (including Parity Debt and Subordinated Debt) are issued payable from a pledge of and lien on all or part of the money in the Fund, the Comptroller must project and certify that the amount of money dedicated to and required to be on deposit in the Fund pursuant to the Constitutional Provision, and the investment earnings on that money, during each year of the period during which the proposed additional obligations are scheduled to be outstanding will be equal to at least

110% of the principal and interest requirements during that year on both the proposed additional obligations and any already outstanding obligations.

The Initial Liquidity Facility

Pursuant to the Fifth Supplemental Resolution, the Commission will enter into the “Standby Bond Purchase Agreement” with State Street Bank and Trust Company, as administrative agent, and State Street Bank and Trust Company and the California Public Employees’ Retirement System, as liquidity providers (collectively, the “Initial Liquidity Facility Issuer”), to obtain the initial Liquidity Facility for the Bonds (the “Initial Liquidity Facility”), providing for the purchase, in accordance with the terms thereof, of the Bonds which bear interest at the Initial Rate, a Daily Rate or a Weekly Rate and that are tendered for purchase as provided in the Fifth Supplemental Resolution but not remarketed.

The Initial Liquidity Facility contains various provisions, covenants and conditions, certain of which are summarized below. Various words or terms used in the following summary are defined in this Official Statement, the Initial Liquidity Facility, the Award Certificate, the Fifth Supplemental Resolution, or the Master Resolution and reference thereto is made for full understanding of their import. Copies of the Initial Liquidity Facility are available for examination at the offices of the Department.

General. The obligation of the Initial Liquidity Facility Issuer pursuant to the Initial Liquidity Facility is to provide funds, severally but not jointly, for the purchase of the Bonds that have been tendered but not remarketed and will commence on the date of the delivery of the Bonds and end on the earliest of (a) the Expiration Date (or such later date as may be agreed to by the Initial Liquidity Facility Issuer and the Commission as contemplated by Section 2.10 of the Initial Liquidity Facility), (b) the Notice of Termination Date (as defined below), (c) the date on which no Bonds are Outstanding, (d) 5:00 p.m. on the Conversion Date or the Substitution Date (each, as defined below), (e) immediately, upon the occurrence of certain Events of Default, as described below, or (f) the date on which the Available Commitment has otherwise been reduced to zero or terminated in its entirety pursuant to the Initial Liquidity Facility. The period extending from the effective date of an Initial Liquidity Facility through the occurrence of any of the foregoing events described in clauses (a) through (f) above is referred to herein as the “Purchase Period.”

Subject to the terms and conditions of the Initial Liquidity Facility, the Initial Liquidity Facility Issuer, severally but not jointly, agrees from time to time during the Purchase Period to purchase, with its own funds, Eligible Bonds (as defined below), at the Purchase Price on a purchase date. Each of the Initial Liquidity Issuers agrees to purchase 50% of the Bonds to be purchased on a purchase date. The aggregate principal amount (or portion thereof in denominations authorized by the Fifth Supplemental Resolution or any integral multiple thereof) of any Eligible Bond purchased on any Purchase Date will not exceed the Available Principal Commitment on such Purchase Date and the portion of the Purchase Price constituting accrued interest on such Eligible Bonds will not exceed the lesser of (a) the Available Interest Commitment on such Purchase Date and (b) the actual aggregate amount of interest accrued on each such Eligible Bond to but excluding such Purchase Date. Any Eligible Bonds so purchased will thereupon constitute Purchased Bonds and will, from the date of such purchase and while they are Purchased Bonds, bear interest at the Bank Rate and have other characteristics of Purchased Bonds as set forth in the Initial Liquidity Facility, the Award Certificate, the Fifth Supplemental Resolution, the Master Resolution and the Bonds.

UNDER CERTAIN CIRCUMSTANCES DESCRIBED HEREIN, THE OBLIGATION OF THE INITIAL LIQUIDITY FACILITY ISSUER TO PURCHASE BONDS IN THE INITIAL MODE, DAILY MODE OR WEEKLY MODE TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY PURCHASE MAY BE TERMINATED OR SUSPENDED WITHOUT NOTICE. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE SUCH BONDS TENDERED BY THE REGISTERED OWNERS THEREOF OR SUBJECT TO MANDATORY PURCHASE. THE INITIAL LIQUIDITY FACILITY DOES NOT GUARANTEE THE PAYMENT OF PRINCIPAL OF OR INTEREST OR REDEMPTION PREMIUM, IF ANY, ON SUCH BONDS IN THE EVENT OF NON-PAYMENT OF SUCH INTEREST, PRINCIPAL, OR REDEMPTION PREMIUM, IF ANY, BY THE COMMISSION. NO BONDS OTHER THAN THE BONDS IN THE INITIAL MODE, DAILY MODE OR WEEKLY MODE ARE PAYABLE FROM THE INITIAL LIQUIDITY FACILITY.

If, on any Purchase Date during the Purchase Period, the Initial Liquidity Facility Issuer receives not later than 12:30 p.m., New York City time, a notice of bank purchase from the Tender Agent, the Initial Liquidity Facility Issuer must, subject to the conditions set forth in the Initial Liquidity Facility, transfer to the Tender Agent not later than 2:30 p.m., New York City time, on such Purchase Date, in immediately available funds, an amount equal to the aggregate Purchase Price of all Eligible Bonds tendered or deemed tendered for purchase on such date but not remarketed as specified in such notice of bank purchase. A notice of bank purchase will be irrevocable after receipt thereof by the Initial Liquidity Facility Issuer.

The obligation of the Initial Liquidity Facility Issuer to purchase Eligible Bonds on any date is subject to the satisfaction of the following conditions, unless waived in writing by the Initial Liquidity Facility Issuer: (i) no Immediate Termination Event or Suspension Event (each as defined below under “Events of Default and Remedies” below) will have occurred and be continuing; and (ii) the Initial Liquidity Facility Issuer will have timely received a notice of bank purchase.

Events of Default and Remedies.

Events of Default. (a)(i) Any default in the payment when due of the principal, premium, if any, or interest payable (y) on any Bond (including any Purchased Bond) or Parity Debt, or (z) of any general obligation indebtedness issued, assumed or guaranteed by the State, which default, in each case, will continue beyond any applicable grace period, or (ii) any default in the payment when due of the principal, premium, if any, or interest payable on any Debt of the Commission (other than Debt referred to in clause (i)(y) above) with an aggregate principal amount in excess of \$20,000,000, which default continues beyond any applicable grace period, or any default under the provisions of the resolution, indenture, contract, or instrument pursuant to which the foregoing Debt will have been issued, which default continues for a period of time sufficient to permit the acceleration of the maturity of any such Debt.

(b)(i) Any material provision of the Acts, the Initial Liquidity Facility, the Master Resolution, the Fifth Supplemental Resolution, the Award Certificate, the Bonds, or any Parity Debt relating to the Security or otherwise affecting payment of principal or interest on the Bonds (including Purchased Bonds) or any Parity Debt at any time and for any reason ceases to be valid and binding on the Commission or the State as a result of federal or state legislative or administrative action, or is declared, in a final nonappealable judgment by any court of competent jurisdiction over the Commission or the State, to be null and void, invalid, or unenforceable; or (ii) the State or the Commission has taken or permitted to be taken any official action, or has duly enacted any amendment to the Constitution or any other Act or any statute, official order, amendment, or statute which would materially adversely affect the enforceability of the Initial Liquidity Facility, the Bonds, the Acts, the Master Resolution, the Fifth Supplemental Resolution, the Award Certificate, or any Parity Debt relating to the Security or otherwise affecting payment of principal or interest on the Bonds (including Purchased Bonds) or any Parity Debt; or (iii) any governmental entity with jurisdiction to rule on the validity of the Initial Liquidity Facility, the Bonds, the Acts, the Master Resolution, the Fifth Supplemental Resolution, the Award Certificate or any Parity Debt shall announce, find or rule that any material provision of the Initial Liquidity Facility, the Bonds, the Acts, the Master Resolution, the Fifth Supplemental Resolution, the Award Certificate or any Parity Debt, as the case may be, relating to the Security or otherwise affecting payment of principal or interest on the Bonds (including Purchased Bonds) or any Parity Debt is not valid or not binding on the Commission or the State; or (iv) the State or the Commission (A) makes a claim in a judicial or administrative proceeding that the Commission has no further liability or obligation hereunder, under the Bonds, the Acts, the Master Resolution, the Fifth Supplemental Resolution, the Award Certificate or any Parity Debt or (B) contests in a judicial or administrative proceeding the validity or enforceability of any material provision of the Initial Liquidity Facility, the Bonds, the Acts, the Master Resolution, the Fifth Supplemental Resolution, the Award Certificate or any Parity Debt relating to or otherwise affecting the Commission’s or the State’s obligation to pay the principal of or interest on any Bonds (including any Purchased Bonds) or such Parity Debt.

(c) The Commission or the State makes an assignment for the benefit of creditors, files a petition in bankruptcy, is unable generally to pay its debts as they come due, is adjudicated insolvent or bankrupt, or there is entered any order or decree granting relief in any involuntary case commenced against it under any applicable bankruptcy, insolvency, or similar law now or hereafter in effect; or if the Commission or the State petitions or applies to any tribunal for any receiver, trustee, liquidator, assignee, custodian, sequestrator, or other similar official of it, or of any substantial part of its properties, or commences any proceeding in a court of law for a reorganization,

readjustment of debt, dissolution, liquidation, or other similar procedure under the law or statutes of any jurisdiction, whether now or hereafter in effect; or if there is commenced against the Commission or the State any such proceeding in a court of law which remains undismitted or will not be discharged, vacated, or stayed, or such jurisdiction will not be relinquished, within 60 days after commencement; or the Commission or the State by any act indicates its consent to, approval of, or acquiescence in any such proceeding in a court of law, or to an order for relief in an involuntary case commenced against it under any such law, or to the appointment of any receiver, trustee, liquidator, assignee, custodian, sequestrator, or other similar official for it or a substantial part of its properties; or if the Commission or the State suffers any such receivership, trusteeship, liquidation, assignment, custodianship, sequestration, or other similar procedure to continue undischarged for a period of 60 days after commencement or if the Commission or the State takes any action for the purposes of effecting the foregoing.

(d) S&P, Fitch, and Moody's have (i) assigned to the Bonds, or any unenhanced, long-term Parity Debt, a rating below "BBB-," in the case of S&P and Fitch, and "Baa3," in the case of Moody's, (ii) withdrawn their ratings of the Bonds, or any other unenhanced, long-term Parity Debt, other than as a result of debt maturity, redemption, defeasance, nonapplication or nonprovision of information, or (iii) suspended their ratings of the Bonds, or any other unenhanced, long-term Parity Debt, other than as a result of debt maturity, redemption, defeasance, nonapplication or nonprovision of information.

(e) Default in the payment of any fee or any other Reimbursement Obligation required to be paid or reimbursed under the Initial Liquidity Facility to the Initial Liquidity Facility Issuer when and as due as provided in the Initial Liquidity Facility.

(f) Any representation or warranty made by the Commission in the Initial Liquidity Facility or in any other Related Documents or in any certificate, agreement, instrument, or statement contemplated by or made or delivered pursuant to or in connection therewith, proves to have been false or misleading in any material respect when made or when effective or when reaffirmed, as the case may be.

(g) Any Event of Default under the Resolutions, other than a Default or Event of Default under the Initial Liquidity Facility.

(h) The Commission fails to perform the covenants set forth in specified sections of the Initial Liquidity Facility.

(i) The Commission defaults in the due observance or performance of any term, covenant, or agreement set forth in the Initial Liquidity Facility (other than as described in subparagraphs (a), (e), (g), and (h) above) for a period of 30 days after written notice, specifying such default and requesting that it be remedied, is given to the Commission by the Initial Liquidity Facility Issuer; provided, that if such default is not for the payment of money and cannot be reasonably cured within 30 days, it will not constitute an Event of Default if the Commission commences to cure such default within said 30 days and diligently pursues same to completion within 90 days of the occurrence of such default.

(j) The entry of filing of any final, non-appealable judgment, writ or warrant of attachment or of any similar process in an amount in excess of \$20,000,000 against the Texas Mobility Fund and the Commission fails to pay or satisfy such judgment within 60 days.

Remedies. In the case of any Event of Default as described in subparagraphs (a)(i), (b)(i), (b)(ii), (c) or (d) above (each, an "Immediate Termination Event"), the Available Commitment and the obligation of the Initial Liquidity Facility Issuer to purchase Bonds will immediately terminate without notice or demand and, thereafter, the Initial Liquidity Facility Issuer will be under no obligation to purchase Bonds. Promptly upon the occurrence of such Event of Default, the Initial Liquidity Facility Issuer must give written notice of the same to the Commission, the Paying Agent/Registrar, the Tender Agent, and the Remarketing Agent; provided, that the Initial Liquidity Facility Issuer will incur no liability or responsibility whatsoever by reason of the Initial Liquidity Facility Issuer's failure to give such notice and such failure will in no way affect the termination of the Available Commitment and of the Initial Liquidity Facility Issuer's obligation to purchase Bonds pursuant to the Initial Liquidity Facility. The Commission will cause the Paying Agent to notify all Owners of the termination of the Available Commitment and the obligation of the Initial Liquidity Facility Issuer to purchase Bonds.

In the case of an Event of Default specified in subparagraphs (a)(ii), (e), (f), (g), (h), (i) or (j) above, the Initial Liquidity Facility Issuer may terminate the Available Commitment by giving written notice of such Event of Default and termination of the Initial Liquidity Facility to the Paying Agent/Registrar, the Tender Agent, the Commission, and the Remarketing Agent requesting a Mandatory Standby Tender. The obligation of the Initial Liquidity Facility Issuer to purchase Bonds will terminate on the Notice of Termination Date, as defined below, and on such date the Available Commitment will terminate and the Initial Liquidity Facility Issuer will be under no further obligation to purchase Bonds.

In the case of an Event of Default specified in subparagraph (b)(iii) or (b)(iv) above or a Default specified in subparagraph (c) above (each, a "Suspension Event"), the obligations of the Initial Liquidity Facility Issuer shall be immediately and automatically suspended without notice from the time of the occurrence of such Event of Default; *provided, however*, that (A) if such provisions are upheld in their entirety or (B) the Default which gave rise to such suspension is cured or ceased to be continuing, then the Initial Liquidity Facility Issuer's obligations under the Initial Liquidity Facility will be automatically reinstated and the terms of the Initial Liquidity will continue in full force and effect (unless the Initial Liquidity Facility has otherwise expired or been terminated in accordance with its terms) as if there had been no such suspension. If the Event of Default which gave rise to the suspension of the obligations of the Initial Liquidity Facility Issuer under the Initial Liquidity Facility has not been cured or does not cease to exist prior to the three year anniversary of such occurrence, the obligations of the Initial Liquidity Facility Issuer under the Initial Liquidity Facility will be terminated upon written notice from the Initial Liquidity Facility Issuer to the Commission and, thereafter, the Initial Liquidity Facility Issuer will have no further obligations under the Initial Liquidity Facility. In connection with any Suspension Event, the Commission will promptly direct the Paying Agent/Registrar to notify all Bondholders of any suspension of the obligations of the Initial Liquidity Facility Issuer to purchase Bonds as a result of the occurrence of such Suspension Event.

Upon the occurrence of any Event of Default, the Initial Liquidity Facility Issuer will have all remedies provided at law or equity, including, without limitation, the rights provided under the Award Certificate, the Fifth Supplemental Resolution, or the Master Resolution and the right to accelerate all amounts due hereunder (provided, however, the Initial Liquidity Facility Issuer shall not have the remedy of acceleration with respect to amounts owed and unpaid solely under any Purchased Bonds); provided, further, however, the Initial Liquidity Facility Issuer agrees to purchase Bonds on the terms and conditions of the Initial Liquidity Facility notwithstanding the occurrence of an Event of Default or Default which does not suspend or terminate its obligation to purchase Bonds as described above. The remedies described in this section are not exclusive. The Initial Liquidity Facility Issuer reserves the right and will have the right to pursue any other available remedies, whether provided by law, in equity, the Related Documents, or the Initial Liquidity Facility. In addition, upon the occurrence of any Event of Default under the Initial Liquidity Facility, all Reimbursement Obligations then due and payable thereunder will bear interest at the Default Rate.

Defined Terms. As used in this section entitled "*The Initial Liquidity Facility*," the following terms have the meanings indicated below:

"Available Commitment" as of any day means the sum of the Available Principal Commitment and the Available Interest Commitment, in each case as of such day.

"Available Interest Commitment" initially means (i) for the period from December 13, 2006 through (but not including) April 1, 2007, \$1,576,768, which is the aggregate of the several commitments of the Initial Liquidity Facility Issuer to pay the Interest Component of the Purchase Price of the Bonds for such period pursuant to Section 2.01 in the amount for each Initial Liquidity Facility Issuer not to exceed \$788,384, representing 109 days' interest on the Available Principal Commitment based upon an actual per annum rate of interest equal to 3.52% (based on the actual days elapsed in a year of 365 days); (ii) for the period from April 1, 2007 through (but not including) September 5, 2007, \$2,271,124, which is the aggregate of the several commitments of the Initial Liquidity Facility Issuer to pay the Interest Component of the Purchase Price of the Bonds for such period pursuant to Section 2.01 in the amount for each Initial Liquidity Facility Issuer not to exceed \$1,135,562, representing 157 days' interest on the Available Principal Commitment based upon an actual per annum rate of interest equal to 3.52% (based on the actual days elapsed in a year of 365 days); and (iii) from September 5, 2007 and thereafter, \$1,726,028 which is the aggregate of the several commitments of the Initial Liquidity Facility Issuer to pay the Interest Component of the Purchase Price of the Bonds pursuant to Section 2.01 in the amount for each Initial Liquidity Facility Issuer not to

exceed \$863,014, representing 35 days' interest on the Available Principal Commitment based upon an assumed per annum rate of interest equal to 12.00% (based on the actual days elapsed in a year of 365 days), in all cases, as such amounts shall be adjusted from time to time as follows: (a) downward by an amount that bears the same proportion to such initial amount as the amount of any reduction in the Available Principal Commitment pursuant to the definition of "Available Principal Commitment" bears to the initial Available Principal Commitment; and (b) upward by an amount that bears the same proportion to such initial amount as the amount of any increase in the Available Principal Commitment pursuant to clause (c) of the definition of "Available Principal Commitment" bears to the initial Available Principal Commitment.

"Available Principal Commitment" initially means \$150,000,000, which is the aggregate of the several commitments of the Initial Liquidity Facility Issuer to pay the principal component of the Purchase Price of the Bonds in the amount for each Initial Liquidity Facility Issuer not to exceed \$75,000,000, and, thereafter, means such initial amount adjusted from time to time as follows: (a) downward by the amount of any reduction of the Available Principal Commitment pursuant to the Initial Liquidity Facility; (b) downward by the principal amount of any Bonds purchased by the Initial Liquidity Facility Issuer pursuant to the Initial Liquidity Facility; and (c) upward by the principal amount of any Bonds previously purchased by the Initial Liquidity Facility Issuer pursuant to the Initial Liquidity Facility, that are remarketed by the Remarketing Agent, sold by a Bank Bondholder, or deemed remarketed or deemed sold, in each case, pursuant to the Initial Liquidity Facility (regardless of the purchase price received for such Bonds). Any adjustment to the Available Principal Commitment pursuant to clauses (a), (b) or (c) above will occur simultaneously with the occurrence of the events described in such clauses.

"Conversion Date" means the date on which none of the Bonds bear interest at the Initial Rate, Daily Rate or Weekly Rate.

"Eligible Bonds" means any Bonds bearing interest at the Initial Rate, the Daily Rate or the Weekly Rate and does not include any Bonds owned by, for the account of, or on behalf of, the Commission or any Purchased Bonds and Bonds that have been removed from coverage under the Initial Liquidity Facility by reason of redemption or defeasance.

"Expiration Date" means the later of (a) 5:00 p.m. (New York City time) on December 13, 2013 or, if such day is not a Business Day, the Business Day next preceding such day and (b) 5:00 p.m. (New York City time) on the last day of any extension of such date as described below, if such last day is not a Business Day, the Business Day next preceding such day.

"Notice of Termination Date" means the 30th day (or if such day is not a Business Day, the next following Business Day) after the notice of termination described in the second paragraph of the "Remedies" section above, is received by the Paying Agent/Registrar.

"Related Documents" means each of the Initial Liquidity Facility, the Remarketing Agreement, this Official Statement, the Resolutions, the Paying Agent/Registration Agreement, the Purchased Bond Custody Agreement and the Tender Agent Agreement delivered by the Commission or any other party as required by the Initial Liquidity Facility or in connection with the issuance of the Bonds.

"Substitution Date" means the date on which an Alternate Liquidity Facility is to be substituted for a then-existing Liquidity Facility under the Fifth Supplemental Resolution.

Alternate Liquidity Facility. At any time, the Commission may obtain or provide for the delivery to the Tender Agent of an Alternate Liquidity Facility with respect to the Bonds. Any such Liquidity Facility shall provide that a Termination Tender Date shall not occur unless the issuer thereof gives to the Commission, the Remarketing Agent and the Tender Agent written notice thereof at least 30 days prior to the Termination Tender Date. On or prior to the date on which an Alternate Liquidity Facility is obtained or delivered to the Tender Agent, the Commission shall furnish to the Tender Agent and the Remarketing Agent (i) a Favorable Opinion of Bond Counsel, and (ii) opinion of counsel for the Alternate Liquidity Facility Issuer as to the validity and enforceability of the Alternate Liquidity Facility and that the Alternate Liquidity Facility is exempt from registration pursuant to the Securities Act of 1933, as amended, as well as like opinion of foreign counsel if the Liquidity Facility Issuer is not incorporated or

formed in the United States. All Outstanding Bonds will become subject to mandatory tender for purchase on the Substitution Date.

Downgrade. If Liquidity Facility Issuer of the then existing Liquidity Facility fails to maintain short-term credit ratings from at least two (2) nationally recognized rating agencies in the highest short-term credit rating category (without regard to gradations or modifiers), the Commission is required to obtain an Alternate Liquidity Facility with respect to the Bonds, in a reasonably timely manner, unless no Liquidity Facility Issuer has short-term credit ratings at the required levels at a reasonable cost, as determined by the Commission acting through the Department Representative. The short-term credit rating of the provider of such Alternate Liquidity Facility must be in the highest short-term credit rating category (without regard to gradations or modifiers) then listed by Moody's, Fitch and S&P, respectively, unless no Liquidity Facility Issuer has short-term credit ratings of the required levels at a reasonable cost, as determined by the Commission acting through the Department Representative.

Notice. The Commission shall deliver to the Paying Agent and the Tender Agent a copy of any Alternate Liquidity Facility obtained on the effective date of such Alternate Liquidity Facility. In the event of an extension of the Expiration Date, the Commission shall give the Paying Agent, the Tender Agent and the Remarketing Agent a written notice of the new Expiration Date at least 16 days prior to the Expiration Tender Date. In the event of a substitution of a Liquidity Facility with an Alternate Liquidity Facility, the Commission shall give the Paying Agent, the Tender Agent and the Remarketing Agent a written notice of the Substitution Date at least 31 days prior to such Substitution Date. The Commission shall give the Paying Agent, Tender Agent and Remarketing Agent a written notice of any Termination Tender Date at least 16 days prior to such Termination Tender Date. The Commission shall give the Paying Agent and Tender Agent a written notice of its election to terminate the Liquidity Facility at least 16 days prior to the Expiration Tender Date resulting from its election to terminate such Liquidity Facility.

Amount. The Liquidity Facility will provide for draws or borrowings, in the aggregate, in an amount at least equal to the Liquidity Amount for the related Bonds.

The Initial Liquidity Facility Issuer

The following information has been provided by the Initial Liquidity Facility Issuer for use in this Official Statement. Such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Commission or the Remarketing Agent. This information has not been independently verified by the Commission or the Remarketing Agent 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.

State Street Bank and Trust Company. State Street Bank and Trust Company (the "Bank") is a wholly-owned subsidiary of State Street Corporation (the "Corporation"). The Corporation (NYSE: STT) is a leading specialist in providing institutional investors with investment servicing, investment management and investment research and trading. With \$10.1 trillion in assets under custody and \$1.4 trillion in assets under management, the Corporation operates in 26 countries and more than 100 markets worldwide. The assets of the Bank at December 31, 2005 accounted for approximately 90% of the consolidated assets of the Corporation. At December 31, 2005, the Corporation had total assets of \$98 billion, total deposits (including deposits in foreign offices) of \$59.6 billion, total loans and lease finance assets net of unearned income, allowance and reserve for possible credit losses of approximately \$6.5 billion and total equity capital of \$6.4 billion.

The Bank's Consolidated Reports of Condition for Insured Commercial and State Chartered Savings Banks FFIEC 031 for December 31, 2005, as submitted to the Federal Reserve Bank of Boston, are incorporated by reference in this description of the Bank and shall be deemed to be a part hereof.

In addition, all reports filed by the Bank pursuant to 12 U.S.C. §324 after the date of this Official Statement shall be deemed to be incorporated herein by reference and shall be deemed to be a part hereof from the date of filing of any such report.

Additional information, including financial information relating to the Corporation and the Bank is set forth in the Corporation's Annual Report or Form 10-K for the year ended December 31, 2005. The annual report can be found on the Corporation's web site, www.statestreet.com. Such report and all reports filed by the Corporation

pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this Official Statement are incorporated herein by reference and shall be deemed a part hereof from the date of filing of any such report. The Credit Agreement is an obligation of the Bank and not of the Corporation.

Any statement contained in any document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Bank hereby undertakes to provide, without charge to each person to whom a copy of this Official Statement has been delivered, on the written request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Official Statement by reference, other than exhibits to such documents. Written requests for such copies should be directed to Investor Relations, State Street Corporation, One Lincoln Street, Boston, Massachusetts 02111, telephone number 617-786-3000.

Neither the Bank nor its affiliates make any representation as to the contents of this Official Statement (except as to this description of the Bank to the extent it relates to the Bank), the suitability of the Notes for any investor, the feasibility or performance of any project or compliance with any securities or tax laws or regulations.

California Public Employees' Retirement System. California Public Employees' Retirement System ("CalPERS" or the "System"), a unit of the California State and Consumer Services Agency, provides retirement and health benefits to more than 1.4 million public employees, retirees, and their families, based on employment services provided to more than 2,500 cities, counties, districts, and other local authorities or public bodies of or within the State of California. CalPERS is created pursuant to, and governed by the provisions of, Title 2, Division 5, Parts 3 through 8, of the Government Code, section 20000 et seq. (the "Public Employees' Retirement Law").

California Constitution Article XVI, Section 17 (the "Constitutional Provision") grants to the CalPERS Board plenary authority and financial responsibility for the investment of System assets. These assets are held in trust under the Constitutional Provision, to be used for the exclusive purposes of providing benefits to System members and their beneficiaries and defraying reasonable expenses of administering the System. Under paragraph (c) of the Constitutional Provision, the Board may make investments consistent with the trust imposed upon it, with the further obligation to diversify the investments so as to minimize the risk of loss and maximize the rate of return and to act with the care, skill, prudence and diligence "under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims." The sole additional limit on the Board's investment authority is that it will not invest in instruments prohibited by the legislature as being violative of the public interest. California Government Code (the "Government Code") section 7514.3 provides express statutory authority for CalPERS to establish a credit enhancement program to assist entities of state and local government and other issuers of municipal and public finance debt to secure more favorable financing terms through a variety of types of credit enhancement including, but not limited to, enhancement of the credit of bonds, notes, and other indebtedness.

The standards set forth in the Constitutional Provision are further defined in several provisions of the Government Code. For example, the same "prudent person" standard is restated in Section 20151(c) of the Government Code. In Section 20190, the Government Code recognizes the Board as possessing the "exclusive control" for investment of the retirement fund, again authorizing the Board, in its discretion, to "invest the assets of the fund through the purchase, holding or sale ... [of] any investment, financial instrument, or financial transaction [that] is prudent in the informed opinion of the board."

Under Section 20191 of the Government Code, the Board may further specify guidelines "by which to designate those securities and real property that are acceptable for purchase" through the adoption of investment resolutions. The Board may delegate its investment authority to its executive officer, who may further delegate to his or her subordinates, unless the Board has reserved authority to the executive officer to act personally (Section 20099 of the Government Code).

Financial data for June 30, 2005 are taken from the audited financial statements presented in CalPERS' Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2005.

As of June 30, 2005, the Fund had net assets held in trust for pension benefits with a market value of approximately \$189.6 billion, compared to approximately \$167.6 billion as of June 30, 2004. As of October 31, 2006, net assets had a total market value of approximately \$224.6 billion (unaudited).

CalPERS is independently rated "Aaa/P-1" by Moody's Investors Service and "AAA/F1+" by Fitch Ratings.

CalPERS will provide without charge, upon request, a copy of the 2005 CAFR for the years ended June 30, 2005 and 2004. Requests to CalPERS for the CAFR should be directed by mail to P.O. Box 2749, Sacramento, CA 95812-2749, Attention: Investment Operations / Credit Enhancement Program, or by email to invo_credit_enhancement@calpers.ca.gov. The most recent Annual Report and other information regarding CalPERS can be viewed at <http://www.calpers.ca.gov>.

The foregoing information has been provided by CalPERS and is not intended to serve as a representation, warranty, or contract modification of any kind.

The Remarketing Agent and the Remarketing Agreement

Goldman, Sachs & Co. (the "Remarketing Agent") has been appointed, pursuant to the Fifth Supplemental Resolution and the Remarketing Agreement by and between the Commission and the Remarketing Agent, dated as of December 1, 2006 (the "Remarketing Agreement"), as the Remarketing Agent for the Bonds. Pursuant to the Remarketing Agreement, the Remarketing Agent will determine the interest rates on, and Interest Periods for, the Bonds in the manner and at the times as described in "DESCRIPTION OF THE BONDS – Determination of Interest Rate and Interest Rate Periods." The Remarketing Agent is to use its best efforts to remarket the Bonds tendered for purchase, but may suspend its remarketing efforts upon the occurrence of any of the following events:

(A) upon the receipt of notice of the occurrence of an Event of Default under the Resolution, or upon an Immediate Termination Event or during the existence of a Suspension Event under the Liquidity Facility; and

(B) immediately upon the occurrence of any of the following events, which suspension may continue, at the Remarketing Agent's option, so long as the situation continues to exist as to the Bonds:

(1) suspension or material limitation in trading in securities generally on the New York Stock Exchange;

(2) the engagement by the United States in hostilities if the effect of such engagement, in the Remarketing Agent's judgment, makes it impractical or inadvisable to proceed with the solicitation of offers to purchase Bonds;

(3) legislation is introduced by committee, by amendment or otherwise, in, or be enacted by, the House of Representatives or the Senate of the Congress of the United States, or a decision by a court of the United States will be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the United States Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter is made or proposed, to the effect that the offering or sale of obligations of the general character of the Bonds, is or would be in violation of any provision of the Securities Act of 1933, as amended (the "Securities Act") and as then in effect, or the Securities Exchange Act of 1934, as amended (the "Exchange Act") and as then in effect, or with the purpose or effect of otherwise prohibiting the offering or sale of obligations of the general character of the Bonds;

(4) any event occurs or information becomes known, which, in the Remarketing Agent's reasonable opinion, makes untrue, incorrect, or misleading in any material respect any statement or information contained in the disclosure documents provided to the Remarketing Agent in connection with the performance of its duties, or causes such documents to contain an untrue, incorrect, or misleading statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading;

(5) any governmental authority imposes, as to the Bonds, or obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force;

(6) any of the representations and warranties of the Commission made under the Remarketing Agreement were not true and correct on the date made;

(7) the Commission fails to observe any of the covenants or agreements made in the Remarketing Agreement;

(8) any of the rating agencies then rating the Bonds downgrades its rating assigned to the Bonds so that such Bonds are not "Eligible Securities" as defined under Rule 2a-7 of the Investment Company Act of 1940, as amended;

(9) an actual or imminent default or a moratorium in respect of payment of any U.S. Treasury bills, bonds, or notes the effect of which in the Remarketing Agent's judgment makes it impractical to market Bonds or to enforce contracts for the sale of such Bonds;

(10) the marketability of the Bonds or the contemplated offering prices thereof, in the reasonable opinion of the Remarketing Agent, will have been materially adversely affected by any federal or state legislation, effective or pending, or by any decision of any federal or state court of competent jurisdiction or by any order, ruling, or regulation (final, temporary, or proposed) of the Treasury Department or the Internal Revenue Service of the United States or other federal or state authority or regulatory body, or by a release or announcement or communication issued or sent by the Treasury Department or the Internal Revenue Service of the United States, affecting the status of obligations of the general character of the Bonds as contemplated in the Remarketing Agreement, or the interest thereon, or any tax exemption with respect to obligations of the general character of the Bonds as contemplated in the Remarketing Agreement, or the interest thereon, granted or authorized by the Internal Revenue Code of 1986 (the "Code").

(11) a general banking moratorium shall have been established by federal, Texas or New York authorities or those authorities in the country in which the Liquidity Facility Issuer is domiciled; or

(12) there shall have been any material adverse change in the affairs of the Commission that in the Remarketing Agent's reasonable judgment will materially adversely affect the market for the Bonds.

The Commission has agreed, pursuant to the Remarketing Agreement, that if it becomes necessary, in the reasonable judgment of the Remarketing Agent or the Commission, to prepare a separate disclosure document in connection with the remarketing of the Bonds, the Commission will prepare and provide such a document.

The Remarketing Agent may resign or be replaced by the Commission, and if the Remarketing Agent resigns or is removed, the Commission will provide notice of such event by mail to all Owners, the Paying Agent/Registrar, the Liquidity Facility Issuer, and to any rating agency which has assigned a rating to the Bonds.

The Tender Agent and the Tender Agent Agreement

Pursuant to the "Tender Agent Agreement" dated as of December 1, 2006 (the "Tender Agent Agreement"), by and among the Commission, Wells Fargo Bank, N.A., and the Remarketing Agent, the "Purchase Fund" is created, over which the Tender Agent has the exclusive right of withdrawal for the exclusive benefit of the purchasers and sellers of Bonds tendered or deemed tendered for purchase. The General Account, the Liquidity Account, and the Undelivered Bond Purchase Account are also established as trust accounts within the Purchase Fund.

Any money received by the Tender Agent from the Remarketing Agent for the purchase of Bonds is required to be deposited in the General Account of the Purchase Fund, and any money received by the Tender Agent for the purchase of Bonds from the Liquidity Facility is required to be deposited in the Liquidity Account of the Purchase Fund, in each case to be paid out as described below.

On each date that Bonds are required to be delivered to the Tender Agent for purchase (each date a "Purchase Date"), the Tender Agent will transfer from amounts on deposit in the General Account and the Liquidity Account to the Undelivered Bond Purchase Account an amount equal to the Purchase Price of all Undelivered Bonds on such Purchase Date. Money in the Undelivered Bond Purchase Account may not be invested and will be held by the Tender Agent for the exclusive benefit of the Owners of such Undelivered Bonds and applied as described below. Money in the General Account and Liquidity Account will be held uninvested or invested by the Tender Agent in investments as directed by the Commission so that funds are available for payment when needed but in no event may an investment have a maturity of more than 30 days, whichever is earlier.

With respect to optional tenders of Bonds, promptly, but in no event later than the close of business on the Business Day on which it receives an irrevocable notice of tender ("Notice of Tender") from an Owner of Bonds of its election to have the Tender Agent purchase such Bonds, the Tender Agent will give notice to the Remarketing Agent specifying the principal amount of Bonds for which it has received a Notice of Tender, the names and addresses of the Owners thereof, and the date on which such Bonds are to be purchased (the "Optional Purchase Date").

Money in the General Account and Liquidity Account of the Purchase Fund will be applied by the Tender Agent by 2:30 p.m., New York City time, on each Purchase Date to purchase Bonds tendered to the Tender Agent at the respective Purchase Price. Money in the Undelivered Bond Purchase Account of the Purchase Fund will be applied by the Tender Agent, to the extent possible, on and after each Purchase Date, to purchase Undelivered Bonds upon presentation to the Tender Agent at the respective Purchase Price. The Tender Agent agrees to notify the Remarketing Agent, the Liquidity Facility Issuer, and the Paying Agent/Registrar immediately by telephone of the amount, if any, in the Purchase Fund which is in excess of the amount necessary to purchase Bonds at 3:00 p.m., New York City time, on the Payment Date. Any money remaining in the Payment Fund in excess of the amount needed to make the payments, representing amounts received from the Liquidity Provider, will be wired to the Liquidity Facility Issuer by the Tender Agent, as promptly as practicable.

A principal amount of Bonds equal to the principal amount of Bonds purchased on behalf of the Remarketing Agent or by the Liquidity Facility Issuer will be authenticated by the Tender Agent and delivered to, or as instructed by, the Remarketing Agent or the Liquidity Facility Issuer and the Tender Agent will cause the Paying Agent/Registrar to register such Bonds in the name or names provided by the Remarketing Agent or the Liquidity Facility Issuer, as applicable.

Pursuant to the Remarketing Agreement, the Remarketing Agent has agreed to exercise its best efforts to solicit purchases of any Purchased Bond at a price of not less than par, plus accrued interest, if any. The proceeds of any remarketing of such Purchased Bond will be deposited into the Liquidity Account of the Purchase Fund. Upon receipt by the Tender Agent of funds representing the proceeds of the remarketing of such Purchased Bonds, new Bonds in place of such Purchased Bonds so remarketed will be registered in the names of the buyers thereof by the Tender Agent and delivered by the Tender Agent to the buyers thereof, and the proceeds of such remarketing will, prior to or simultaneously with such delivery, be transferred by the Tender Agent to the Liquidity Facility Issuer by wire transfer in federal funds. The Liquidity Facility Issuer has agreed in the Liquidity Facility to release such remarketed Purchased Bonds to the Remarketing Agent on the date of such purchase. The Tender Agent agrees that it will, immediately upon receipt, send to the Liquidity Facility Issuer by facsimile transmission or other electronic means copies of all notices and other communications received by the Tender Agent with respect to any of the Purchased Bonds.

The Tender Agent may resign after providing 60 days notice to the Commission, the Remarketing Agent, the Liquidity Facility Issuer, and the Paying Agent/Registrar. The Tender Agent may be removed by the Commission at any time upon the filing by the Commission of a notice with the Tender Agent, the Remarketing Agent, the Liquidity Facility Issuer, and the Paying Agent/Registrar. Notice of resignation or removal of the Tender Agent must be sent by the Paying Agent/Registrar to the rating agencies then rating the Bonds. Any resignation or removal of the Tender Agent will not be effective until a successor Tender Agent has been appointed.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

Pursuant to the Enabling Act, the Commission must secure payment of Parity Debt with all or part of the revenues dedicated to and on deposit in the Fund, and may pledge the full faith and credit of the State to payments due on Parity Debt if revenues in the Fund are insufficient to make payments due on such obligations.

With respect to Parity Debt, including the Bonds and the previously issued Outstanding Parity Debt, pursuant to the Resolution, the Commission has pledged to the Owners as security for the payment of the Bonds and the previously issued Outstanding Parity Debt, a first lien interest in the Security, which is defined below under “ - Other Sources of Payment – Pledge of Security.” See, also, “ - Creation of Accounts and Subaccounts Within the Mobility Fund” below for a description of the accounts created pursuant to the Master Resolution.

In addition, by adoption of the Fifth Supplemental Resolution, the Commission has exercised its ability to pledge the full faith and credit of the State to payments due on the Bonds and, therefore, should the revenue and money dedicated to and on deposit in the Fund be insufficient to make payments due on the Bonds, there is appropriated by the Constitutional Provision, an amount that is sufficient to make payments due on the Bonds. **THE BONDS CONSTITUTE GENERAL OBLIGATIONS OF THE STATE AND THE FULL FAITH AND CREDIT OF THE STATE IS PLEDGED FOR THE PROMPT PAYMENT OF THE BONDS.**

The Commission has never defaulted on the payment of principal of, or interest on its bonds or other obligations. The Bonds constitute the fifth series of obligations issued or executed by the Commission under the Program and payable from the Fund.

General Obligation Pledge

THE BONDS ARE GENERAL OBLIGATIONS OF THE STATE AND, AS PROVIDED IN THE ENABLING ACT AND THE FIFTH SUPPLEMENTAL RESOLUTION, THE FULL FAITH AND CREDIT OF THE STATE IS PLEDGED FOR THE PAYMENT OF THE BONDS IN THE EVENT THAT THE REVENUE AND MONEY DEDICATED TO AND ON DEPOSIT IN THE FUND ARE INSUFFICIENT. For a reference to information describing the financial condition of the State, see “APPENDIX A – The State” attached hereto.

The Constitutional Provision provides that if the revenue and money dedicated to and on deposit in the Fund pledged to payments due on the Bonds is not sufficient to pay the principal of, redemption premium, if any, and interest on the Bonds, there is appropriated out of the first money coming into the State Treasury in each fiscal year, not otherwise appropriated by the Constitution, an amount that is sufficient to pay the Bonds maturing or becoming due during that fiscal year. If the revenue and money dedicated to and on deposit in the Fund is not sufficient to pay the principal of or interest on the Bonds, the Enabling Act provides that the appropriation contained in the Constitutional Provision will be implemented and observed by all officers of the State during any period in which the Bonds are Outstanding and unpaid and any such Credit Agreements are unpaid. The Administration Agreement establishes procedures by which the Commission is required to seek transfers from the Comptroller, as further described below.

Pursuant to the Constitutional Provision, the Bonds are not included within the computation required by Article III, Section 49-j of the Texas Constitution (“Article III, Section 49-j”) unless the Comptroller projects that money in the State’s General Revenue Fund (the “General Revenue Fund”) will be required to pay amounts due on or on account of the Bonds and any related Credit Agreements. Under Article III, Section 49-j, the Legislature is prohibited from authorizing additional State debt payable from the General Revenue Fund if the resulting annual debt service exceeds 5% of an amount equal to the average of the amount of General Revenue Fund revenues, excluding revenues constitutionally dedicated for purposes other than payment of State debt, for the three preceding fiscal years. See “STATE DEBT – Recent Developments Affecting State Debt” and “– Selected Data Concerning State Debt” in the information referred to in “APPENDIX A – The State.” For purposes of such limitation, “State debt payable from the General Revenue Fund” does not include obligations that, although backed by the full faith and credit of the State, are reasonably expected to be paid from other revenue sources and that are not expected to create a general revenue draw. As discussed below, the Commission anticipates that debt service on the Bonds and the previously issued Outstanding Parity Debt will be self-supporting and, thus, the Bonds and the previously issued Outstanding Parity Debt will not be subject to the limitation of Article III, Section 49-j. Notwithstanding this limitation on the ability of the Legislature to authorize additional State debt, the Bonds and the previously issued

Outstanding Parity Debt are general obligations of the State, as described above, and are payable from the sources described in this section.

Other Sources of Payment

Pledge of Security. The Enabling Act provides that the Commission must secure payment of obligations issued or entered into for the Program with revenues dedicated to and on deposit in the Mobility Fund. With respect to Parity Debt, including the Bonds and the previously issued Outstanding Parity Debt, pursuant to the Resolution, the Commission has pledged to the Owners as security for the payment of the Bonds and to the owners of the previously issued Outstanding Parity Debt as security for the payment of amounts due from the Commission thereunder, a first lien interest in the Security, which consists of: (i) all Pledged Revenues; (ii) all Transportation Assistance Bonds in the Portfolio Account and all amounts in the General Account and the Interest and Sinking Account; (iii) any additional account or subaccount within the Fund that is subsequently established and designated as being included within the Security; (iv) all of the proceeds of the foregoing, including, without limitation, investments thereof; (v) the Liquidity Facility and any applicable Credit Agreement to the extent set forth in the Liquidity Facility and such Credit Agreement, respectively; and (vi) any applicable guarantee of the State. As described herein, the Commission has pledged the full faith and credit of the State to make payments due on the Bonds should the Security be insufficient for any such payments. See “ – General Obligation Pledge” above for information on the pledge of the full faith and credit of the State. Amounts constituting Security are appropriated when received by the State, must be deposited into the Fund, and may be used for purposes permitted by State law, including the Enabling Act and with respect to a Credit Agreement, including the Liquidity Facility, to the extent set forth in such Credit Agreement.

Pledged Revenues. Pledged Revenues include (i) Dedicated Revenues; (ii) Repayments, which means all amounts received by the Commission from the payment of principal of and redemption premium, if any, and interest on Transportation Assistance Bonds held in the Portfolio Account, including, without limitation, any Prepayments; (iii) all other amounts received by the Commission under any collateral documents, including any agreements related to Transportation Assistance Bonds held in the Portfolio Account; (iv) all sale proceeds from the sale of Transportation Assistance Bonds held in the Portfolio Account; and (v) all amounts received by the Commission as income, profits, or gain on investments of money held in the Fund; provided, however, amounts in the Bond Proceeds Account, the Rebate Fund established for the Bonds, or any other account or subaccount so excluded will not constitute Pledged Revenues or Security for the Bonds. Further, the Commission does not intend to use proceeds of the Bonds to purchase Transportation Assistance Bonds and, therefore, Repayments are not currently expected be available to make payments due on the Bonds. See “ – Flow of Funds,” below.

Dedicated Revenues. Dedicated Revenues consist of those revenue sources that have been allocated by the Legislature for the benefit of the Fund. Prior to August 31, 2005, certain initial revenue sources described below under the heading “Detailed Information on Dedicated Revenues – Miscellaneous Sources – Surplus Revenues: Court Fines and Driver License Point Surcharge” were dedicated to the Fund; however, on September 1, 2005, such initial revenue sources were redirected to the State’s General Revenue Fund, and certain other sources of revenue (referred to herein as the “Major Sources”) were redirected into the Fund from the State’s General Revenue Fund. In addition, the Dedicated Revenues include certain revenue sources described under the heading “Miscellaneous Sources,” below, which are anticipated to be directed to the Fund at various times. Regarding the timing of deposits of each revenue source into the Fund, State law requires that all revenue received by the recipient (as described below) must be remitted to the Comptroller for deposit into the Fund within three (3) business days after receipt, with the exception of the Court Fines and the Driver License Point Surcharge described below. See “ – Creation of Accounts and Subaccounts Within the Mobility Fund” below for a description of the accounts and subaccounts created pursuant to the Master Resolution.

Pursuant to the Constitutional Provision, while money in the Fund is pledged to the payment of any outstanding obligation or related credit agreement, the dedication of a specific source or portion of revenues, taxes, or other money may not be reduced, rescinded, or repealed unless the Legislature by law dedicates a substitute or different source projected by the Comptroller to be of a value equal to or greater than the source or amount being reduced, rescinded, or repealed and the Commission has implemented a pledge of the State’s full faith and credit, if such a pledge is not already in place, for the payment of obligations then secured by such dedicated revenues. There can be no assurance that the Legislature will not replace some or all of the Dedicated Revenues outlined herein. If the Legislature replaces any revenue source with a substitute source, the Master Resolution provides that the

definition of Dedicated Revenues with respect to Parity Debt, including the Bonds, will be revised accordingly. See “Detailed Information on Dedicated Revenues – Substitution of Dedicated Revenues” below.

Detailed Information on Dedicated Revenues

Major Sources. Effective since September 1, 2005, certain of the Major Sources were directed for deposit to the Fund; and, all Major Sources will be directed for deposit to the Fund by September 1, 2008. The Major Sources are expected to be the primary revenue sources for the Fund while the Bonds are Outstanding; provided, however, that the Legislature may substitute a source of revenues if such substituted source of revenues is projected by the Comptroller to be of a value equal to or greater than the source being replaced. See “– *Substitution of Dedicated Revenues*” below. Prior to being redirected to the Fund, the Major Sources, with the exception of the Certificate of Title Fees, have historically been used to fund general State government operations and, therefore, have a history of collection, as shown in Table 1 below. The Certificate of Title Fees are currently collected by counties and divided among the collecting county, the State, the Department, and the Texas Emissions Reduction Plan (the “TERP”).

- *Driver’s License Fees:* Commencing on September 1, 2007, “Driver’s License Fees” are directed for deposit into the Fund. Driver’s License Fees are comprised of the following sources:

Under Chapter 521, Texas Transportation Code, the fees associated with Texas drivers’ licenses and personal identification cards are as follows: (a) the fee for the issuance or renewal of a general driver’s license is \$24; (b) the fee for the issuance or renewal of a Class M license or renewal of a license that includes authorization to operate a motorcycle is \$32 (\$5 of which is dedicated to a motorcycle education fund); (c) the fee for the issuance or renewal of a provisional license or instruction permit is \$5; (d) the fee for the issuance or renewal of an occupational license is \$10; (e) the fee for an applicant applying for additional authorization to operate a motorcycle is \$15 for the required application (\$5 of which is dedicated to a motorcycle education fund); (f) the fee for a Class A, B, or C driver’s license that includes an authorization to operate a motorcycle or moped, is increased by \$8 (\$5 of which is dedicated to a motorcycle education fund); (g) the fee for a change from a lower to a higher class of license or the addition of a type of vehicle other than a motorcycle to the license is \$10; (h) the fee for the issuance or renewal of a license, provisional license, instruction permit, hardship license or a personal identification card to a person subject to sex offender registration provisions is \$20; (i) the fee for an identification card for a person under 60 years of age is \$15 and, for a person 60 years of age or over, the fee is \$5; and (j) the fee for a duplicate driver’s license or personal identification card is \$10. Disabled veterans are not subject to these fees.

Under Chapter 521, Texas Transportation Code, the Texas Department of Public Safety (“DPS”) is authorized to suspend or revoke a person’s driver’s license under certain circumstances. Once suspended or revoked, a license may not be reinstated or another license issued until the person pays a \$100 fee, in addition to any other fee required by law. If a driver’s license is revoked for an offense involving certain fraudulent government records, the fee for reissuance is \$100, in addition to the issuance or renewal fee.

Under Chapter 522, Texas Transportation Code, a person that operates a commercial motor vehicle in Texas must have a commercial driver’s license issued by DPS. The fee for a commercial driver’s license or a commercial driver learner’s permit is \$60 subject to reduction by \$4 for each remaining year of validity of a driver’s license. The fee for a duplicate license is \$10 and the fee for a change of class of license, endorsement, or restriction is \$10 per required examination. The fee for renewal of a commercial driver’s license or commercial driver learner’s permit that includes authorization to operate a motorcycle is \$45 (\$5 of which is dedicated to a motorcycle education fund). The fee for a commercial driver’s license or commercial driver learner’s permit that includes an authorization to operate a motorcycle or moped, is increased by \$8 (\$5 of which is dedicated to a motorcycle education fund). The fee for an applicant applying for additional authorization to operate a motorcycle is \$15 for the examination (\$5 of which is dedicated to a motorcycle education fund). The fee for a commercial driver’s license issued to a registered sex offender is \$20.

Under Chapter 524, Texas Transportation Code, once a Texas driver’s license has been suspended for failure to pass a test for intoxication, such license will not be reinstated nor will another license be issued to the person until the person pays DPS a fee of \$125 in addition to any other fee required by law.

Under Chapter 724, Texas Transportation Code, a driver's license suspended under such chapter may not be reinstated or a new license issued until the person whose license has been suspended pays to DPS a fee of \$125 in addition to any other fee required by law. Similarly, a person subject to an order denying the issuance of a driver's license under this provision may not obtain a license until that person pays DPS a fee of \$125 in addition to any other fee required by law.

Table 1 – Collection History of Major Sources, below, shows a reduction in revenue collections from Driver's License Fees from Fiscal Year 2002 to Fiscal Year 2003. In Fiscal Year 1998, the renewal for a driver's license was extended from four years to six years. Accordingly, four years after this change became effective, there was a drop in revenue collected from these fees, followed by another drop the following year. (See Table 1.) The Department expects that the amount of annual revenues from this source should continue to grow at a rate similar to the average annual growth rate from Fiscal Year 2003 to Fiscal Year 2006.

- *Driver Record Information Fees:* Under Chapter 521, Texas Transportation Code, since September 1, 2006, the fees associated with DPS drivers' license records (the "Driver Record Information Fees") have been designated to be deposited daily to the credit of the Fund. Such fees include accident and conviction information (\$6, \$8 if provided through the commercial driver license information system or \$10 if certified); disclosure of an abstract driving record (\$20 or \$22 if provided through the commercial driver license information system); sale of certain information contained in the Department's basic driver's license record file (\$2,000) and weekly updates of such information (\$75 per update); disclosure of information related to an individual (\$4 or \$6 if provided through the commercial driver license information system); disclosure of information to a license holder (\$7, \$9 if provided through the commercial driver license information system or \$10 if certified); release of driving records (\$2.50, \$4.50, \$5.50 or \$20); and disclosure of information from the National Driver Register to an employer (\$4).

- *Motor Vehicle Inspection Fees:* Under Chapter 548, Texas Transportation Code, since September 1, 2005, a portion of certain fees collected by local inspection stations, in the amounts noted below, and forwarded to DPS under Chapter 548, Subchapter H, Texas Transportation Code (the "Motor Vehicle Inspection Fees"), have been deposited daily to the credit of the Fund.

<u>Service</u>	<u>Fee Amount</u>	<u>Mobility Fund Allocation</u>
General Inspection of Motor Vehicle (1 year)	\$12.50	\$3.50
General Inspection of New Motor Vehicle (2 year)	at least 21.75	14.75
General Inspection of Moped	5.75	5.50
Inspection of Commercial Vehicle	60.00	10.00
Inspector Certification (2 year)	10.00	10.00
Inspection Station Certification (2 year)	30.00	30.00

- *Certificate of Title Fee:* Under Chapter 501, Texas Transportation Code, the owner of a motor vehicle registered in Texas may not operate or permit the operation of a vehicle on the public highway until the owner obtains a certificate of title for the vehicle. An applicant for certificate of title, other than the State or a political subdivision of the State, must pay the county assessor-collector a fee (the "Certificate of Title Fee") of (i) \$33, if the applicant's residence is a county located within a nonattainment area as defined under Section 107(d) of the Federal Clean Air Act (42 U.S.C., Section 7407), as amended, or is an affected county, as defined by Section 386.001, Texas Health and Safety Code, \$20 of which is to be forwarded to the Comptroller; or (ii) \$28, if the applicant's residence is any other county, \$15 of which is to be forwarded to the Comptroller. On and after September 1, 2010, the Certificate of Title Fee is \$28 regardless of the county in which the applicant resides, \$15 of which is to be forwarded to the Comptroller.

Until September 1, 2008, all Certificate of Title Fees that are forwarded to the Comptroller will be deposited to the credit of the TERP fund. Beginning September 1, 2008, collections of the Certificate of Title Fee that are forwarded to the Comptroller will be deposited to the credit of the Fund, except that \$5 of each \$20 portion (described in clause (i) of the preceding paragraph) that is deposited on or after September 1, 2008 and before September 1, 2010, shall be deposited to the credit of the TERP fund. On September 1, 2010, the amount of the Certificate of Title Fee will be stabilized at \$28, with \$15 of each fee going to the Comptroller for deposit to the credit of the Fund, regardless of the county in which the applicant resides. Stabilization of the fee amount is expected to diminish the aggregate amount of the annual revenue collected for the fiscal year immediately following the Fiscal Year 2010 and subsequent fiscal years; however, since the amount of the fee dedicated to the Fund will

not change as a result of such stabilization, revenues received by the Fund from this source are not expected to diminish as a result of stabilization of the fee amount. The Certificate of Title Fee became effective June 22, 2003.

In Fiscal Years 2004, 2005 and 2006, the Certificate of Title Fee generated \$98,821,625, \$97,318,231 and \$102,835,154 in revenue, respectively, which was dedicated to the TERP fund.

Table 1: Collection History of Major Sources⁽¹⁾

Fee	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Driver's License Fees	\$113,506,992	\$94,891,180 ⁽²⁾	\$95,258,901	\$111,279,270	\$114,788,283
Driver Record Information Fees	49,920,075	50,993,450	51,523,916	53,900,643	57,524,449
Motor Vehicle Inspection Fees	70,357,620	73,251,245	76,380,272	78,844,300	82,470,874
Certificate of Title Fee ⁽³⁾	N/A	6,073,528	98,821,625	97,318,231	102,835,154
Total Major Sources Collected	\$233,784,687	\$225,209,403	\$321,984,714	\$341,342,444	\$357,146,651

⁽¹⁾ Except as described herein, the amounts shown in Table 1 do not represent amounts deposited in the Mobility Fund during the periods reported in such table. The amounts shown represent the collection history for the portions of the respective fees that are directed for deposit into the Mobility Fund (on the dates indicated above), subject to adjustment for stabilization of the Certificate of Title Fee. See "Detailed Information on Dedicated Revenues – Major Sources." During Fiscal Years 2004 and 2005, the primary sources of funding for the Mobility Fund were provided by Court Fines and Driver's License Point Surcharges (described below under "– Miscellaneous Sources – Surplus Revenues: Court Fines and Driver's License Point Surcharge"), which were deposited in the Fund in the amounts shown in Table 4. Beginning on September 1, 2005, a portion of the Motor Vehicle Inspection Fees were directed for deposit to the Fund, and all Major Sources will be directed for deposit to the Fund by September 1, 2008. See Table 4: Texas Mobility Fund Estimated Revenues.

⁽²⁾ Revenues reflect the effects of the transition from a four-year renewal to a six-year renewal (described above under "– Major Sources – Driver's License Fees").

⁽³⁾ Fee became effective June 22, 2003.

Sources: Texas Comptroller of Public Accounts, Annual Cash Reports, Fiscal Years 2002 through 2006.

Miscellaneous Sources. In addition to the Major Sources, the Legislature has allocated certain other revenue, the "Miscellaneous Sources," to the Fund. The amount and timing of receipts for the Miscellaneous Sources, for reasons discussed below, are expected to be less predictable than the Major Sources, and are not expected to be a major source of revenue for the Fund.

- *United We Stand License Plate Fees:* Under Chapter 504, Texas Transportation Code, the Department is authorized to issue specialty license plates that include the words "United We Stand." The fee for issuance of the license plates, less the Department's administrative costs, shall be deposited to the credit of the Fund. Through August 31, 2006, \$2,408 has been collected from the "United We Stand License Plate Fees."

- *Surplus Revenue from Regional Mobility Authorities:* Under Chapter 370, Texas Transportation Code, if a regional mobility authority in the State determines for any given year that it has surplus revenue from transportation projects, it must: (i) reduce tolls, (ii) spend the surplus revenue on other transportation projects in the counties located within the jurisdiction of the regional mobility authority, or (iii) deposit the surplus revenue to the credit of the Fund. Regional mobility authorities are political subdivisions of the State charged with financing, constructing, and operating transportation projects within their jurisdictions. A regional mobility authority may not be created without the approval of the Commission and the approval of the commissioners court of each county that will be part of the authority. Regional mobility authorities are relatively new entities in Texas, and none of the existing regional mobility authorities are currently receiving revenues from transportation projects. Due to the other alternative uses and the discretion afforded regional mobility authorities with respect to their surplus revenues, it is not expected that such surplus revenues, if any, will ever be deposited into the Fund.

- *Commercial Motor Vehicle Safety Standards:* Under Chapter 644, Texas Transportation Code, DPS may impose certain administrative penalties against violators of the commercial vehicle safety standards described in

Chapter 644, Texas Transportation Code. Effective since September 1, 2005 each penalty so imposed is deposited daily to the credit of the Fund. Through August 31, 2006, \$1,833,079 has been collected from this source.

- *Surplus Revenues: Court Fines and Driver's License Points Surcharge.* Pursuant to Chapter 542, Texas Transportation Code, a state traffic fine of \$30 is assessed against a person who enters a plea of guilty or nolo contendere to or is convicted of an offense under Subtitle C of Title 7, Texas Transportation Code (the "Court Fines"). During Fiscal Years 2004 and 2005, the Fund received 67% of Court Fines (after certain retentions by the local jurisdictions that collected such Court Fines).

Pursuant to Chapter 708, Texas Transportation Code, the Driver Responsibility Program (the "DRP") assigns points to certain moving violations and applies surcharges to offenders (the "Driver's License Points Surcharge"). In addition, DPS assesses a surcharge when a driver accumulates a total of six points or more during a three-year period. The driver must pay a \$100 surcharge for the first six points and \$25 for each additional point. In addition, an annual surcharge may be assessed for a period of three years for certain other violations. For each surcharge collected by DPS as part of the Driver's License Points Surcharge, the Fund received 49.5% of the money collected for Fiscal Years 2004 and 2005.

During Fiscal Years 2004 and 2005, Court Fines in the amount of \$39,159,890 and \$59,605,556, respectively, were deposited to the Fund; and, for the period ending August 31, 2005, \$18,176,042 was deposited to the credit of the Fund from the Driver's License Points Surcharge. (The Driver's License Points Surcharge was effective on September 1, 2003; however, the DRP was not operational until September 1, 2004.) Beginning on September 1, 2005, the portions of Court Fines and Driver's License Points Surcharges that had been directed for deposit into the Fund were redirected for deposit into the State's General Revenue Fund until the total amount of money deposited to the credit of the General Revenue Fund from the portions of Court Fines and Driver's License Points Surcharges that are dedicated to the General Revenue Fund exceed \$250 million in any Fiscal Year. Amounts in excess of \$250 million in any Fiscal Year must be deposited to the credit of the Mobility Fund. During Fiscal Year 2006, no such excess revenues from Court Fines and Driver's License Points Surcharges were deposited into the Fund; and, as of September 20, 2006, the Comptroller projected that no such excess revenues from Court Fines and Driver's License Points Surcharges would be available for deposit into the Fund in Fiscal Year 2007 or thereafter.

- *Investment Earnings and Interest:* The Commission may invest the Fund in investments authorized by Texas law in accordance with an investment policy approved by the Commission (the "Investment Policy"). Both State law and the Investment Policy are subject to change. See "- Investment of Funds" and "FUND ADMINISTRATION, INVESTMENT AND CUSTODY" herein. From the date of establishment of the Fund on November 1, 2001 through August 31, 2005 the Fund earned \$5,339,982 in interest, and for the period commencing September 1, 2005 through August 31, 2006, the Fund earned \$27,268,798 in interest.

Substitution of Dedicated Revenues. While the Dedicated Revenues are pledged to the payment of Outstanding Parity Debt, the Dedicated Revenues may not be reduced, rescinded, or repealed unless: (i) the Legislature dedicates a substitute source that is projected by the Comptroller to be of a value equal to or greater than the source being reduced, rescinded, or repealed and (ii) the Commission institutes a pledge of the State's full faith and credit to the payment of Outstanding Parity Debt. Revenues from any revenue source substituted by the Legislature will become part of Dedicated Revenues. There can be no assurance that the Legislature will not replace some or all of the existing Dedicated Revenues with other sources of revenue. If the Legislature replaces any revenue source with a substitute source, the Master Resolution provides that the definition of Dedicated Revenues with respect to Outstanding Parity Debt, including the Bonds, will be revised accordingly.

Repayments, Prepayments, and Sale Proceeds of Transportation Assistance Bonds. Section 222.103 of the Texas Transportation Code provides that the Commission may use money in the Fund to provide participation by the State, by loan or grant, in the payment of part of the costs of constructing and providing publicly owned toll roads. To the extent that the Commission intends to loan proceeds of obligations issued for the Program to political subdivisions for these purposes, the Commission will make such loans by purchasing obligations issued by the borrowing political subdivisions (the "Transportation Assistance Bonds"). The Commission, pursuant to a supplemental resolution, may (but is not required to) pledge the payments and repayments relating to such Transportation Assistance Bonds to the payment of Parity Debt, including the Bonds, and such pledged Transportation Assistance Bonds will be held in the Portfolio Account of the Mobility Fund. The repayments and prepayments made on such pledged Transportation Assistance Bonds, along with Sale Proceeds from the sale of such Transportation Assistance Bonds, will be deposited into the Interest and Sinking Account and used to make

payments due on Parity Debt, including the Bonds. The Commission does not intend to loan proceeds of the Bonds to political subdivisions for these purposes.

Accounts and Subaccounts Within the Mobility Fund. All amounts in the General Account, the Interest and Sinking Account, and any additional account or subaccount within the Fund that is subsequently established and designated as being included within the Security, along with all of the proceeds of the foregoing, including, without limitation, investments thereof, are part of the Security pledged to payments due on Parity Debt, including the Bonds. Amounts held in the Bond Proceeds Account and in each Rebate Fund established for the Bonds do not constitute Security.

Perfection of Pledge of Security. Chapter 1208, Texas Government Code, as amended, applies to the issuance of Program obligations, including the Bonds, and the pledge of the Security granted by the Commission pursuant to the Resolution, and such pledge is therefore valid, effective, and perfected. If State law is amended at any time while Parity Debt, including the Bonds, is outstanding and unpaid such that the pledge of the Security granted by the Commission under the Resolution is to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, then in order to preserve for the Owners the perfection of the security interest in such pledge, the Commission agrees to take such measures as it determines are reasonable and necessary under State law to comply with the applicable provisions of Chapter 9, Texas Business and Commerce Code, and enable a filing to perfect the security interest in such pledge to occur.

Mobility Fund Financial Statements. The Fund was created on November 6, 2001 and the initial revenue sources and investment earnings began to be deposited into the Fund in March, 2004. As of August 31, 2004, the Fund had total assets of \$39,248,924 (which were derived solely from deposits to the Fund from the initial revenue sources described herein, including investment earnings, but did not include the proceeds of any Parity Debt). As of August 31, 2005, the Fund had total assets of \$832,750,220 (which included approximately \$711,986,496 of proceeds of previously issued Parity Debt). For the fiscal period ending August 31, 2006, the Fund had total assets of \$535,795,121 (which included approximately \$165,885,512 of proceeds of previously issued Parity Debt). See Table 2 - Statement of Net Assets and Governmental Fund Balance Sheet; and Table 3 - Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance. The schedules in Tables 2 and 3 are based on the Fund's audited financial statements for the Fiscal Year 2005, attached hereto as APPENDIX E, and the Fund's unaudited financial statements for the Fiscal Year 2006. The schedules reflect the reclassification of the Fund as a governmental fund in Fiscal Year 2005. As a result of such reclassification, the reporting standard for the Fund was revised to ensure compliance with reporting standards for governmental funds, and the format of the financial statements to be provided as annual continuing disclosure was changed accordingly. Prior to the reclassification of the Fund as a governmental fund, the Fund was classified as a proprietary fund and the financial reports for the Fund were unaudited and prepared in accordance with reporting standards for proprietary funds.

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Table 2: Statement of Net Assets and Government Fund Balance Sheet⁽¹⁾

	As of August 31, 2005			As of August 31, 2006		
	Special Revenue Fund	Adjustments	Statement of Net Assets	Special Revenue Fund	Adjustments	Statement of Net Assets
Assets						
Current Assets						
Cash and cash equivalents in State Treasury	\$ 832,750,220	\$	\$ 832,750,220	\$ 535,795,121	\$	\$ 535,795,121
Total Current Assets	<u>832,750,220</u>		<u>832,750,220</u>	<u>535,795,121</u>		<u>535,795,121</u>
Total Assets	832,750,220	0	832,750,220	535,795,121	0	535,795,121
Liabilities						
Current Liabilities:						
Accounts Payable	1,639,328		1,639,328	956,485		956,485
Interest Payable	10,751,276		10,751,276	26,776,897		26,776,897
Due to Texas Department of Transportation, Fund 6	12,092,613		12,092,613	197,883,141		197,883,141
General Obligation Bonds Payable	24,485,000	24,485,000	24,485,000		35,175,000	35,175,000
Total Current Liabilities	<u>24,483,217</u>	<u>24,485,000</u>	<u>48,968,217</u>	<u>225,616,523</u>	<u>35,175,000</u>	<u>260,791,523</u>
Non-Current Liabilities						
General Obligations Bonds Payable		975,515,000	975,515,000		1,690,340,000	1,690,340,000
Total Non-Current Liabilities		<u>975,515,000</u>	<u>975,515,000</u>	<u>0</u>	<u>1,690,340,000</u>	<u>1,690,340,000</u>
Total Liabilities	24,483,217	1,000,000,000	1,024,483,217	225,616,523	1,725,515,000	1,951,131,523
Fund Balances/Net Assets						
Fund Balances:						
Unreserved	808,267,003	(808,267,003)		310,178,598	(310,178,598)	
Total Fund Balances ⁽²⁾	<u>808,267,003</u>	<u>(808,267,003)</u>		<u>310,178,598</u>	<u>(310,178,598)</u>	
Total Liabilities and Fund Balances	832,750,220			535,795,121		
Net Assets:						
Restricted for: Mobility Projects		(191,732,997)	(191,732,997)		(1,415,336,402)	(1,415,336,402)
Total Net Assets ⁽²⁾		<u>(1,000,000,000)⁽³⁾</u>	<u>(191,732,997)</u>		<u>(1,725,515,000)</u>	<u>(1,415,336,402)</u>

Source: Annual Financial Report of the Texas Mobility Fund For the Fiscal Years ended August 31, 2005 and August 31, 2006. Results for the Fiscal Year ended August 31, 2005 are audited by the Texas State Auditor's Office. Results for the Fiscal Year ended August 31, 2006 are unaudited.

(1) Beginning with the fiscal year ending August 31, 2005, the Fund was reclassified as a governmental fund. In prior years, the Fund was classified as a proprietary fund and a Statement of Net Assets was prepared in compliance with reporting standards for proprietary funds.

(2) Includes proceeds of previously issued Parity Debt as follows: approximately \$711,986,496 for the Fiscal Year ending August 31, 2005 and \$165,885,512 for the Fiscal Year ending August 31, 2006.

(3) The Fund Balance, Net Assets: Restricted for: Mobility Projects, and Total Net Assets in the column for Adjustments reflect corrections of the amounts reported in the audited Annual Financial Report of the Fund for the Fiscal Year ended August 31, 2005.

Table 3: Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance⁽¹⁾

	August 31, 2005 ⁽²⁾		August 31, 2006		Statement of Activities	Special Revenue Fund	Adjustments	Statement of Activities
	Special Revenue Fund	Adjustments	Special Revenue Fund	Adjustments				
Revenues:								
Charges for Services-Violations, Fines & Penalties	\$ 116,942,325	\$	\$ 116,942,325	\$	\$ 84,287,959 ⁽⁴⁾	\$	\$	\$ 84,287,959 ⁽⁴⁾
Interest & Investment Income ⁽³⁾ (Operating Grants and Contributions)	6,176,192		6,176,192		27,985,334			27,985,334
Operating G & C-Other Operating Grant Revenue	1		1					
Total Revenues	123,118,518	0	123,118,518	1	112,273,293	0	112,273,293	112,273,293
Expenditures/Expenses:								
Principal on State Bonds					24,485,000	(24,485,000)		0
Interest on State Bonds	11,587,486		11,587,486		54,691,156			54,691,156
Other Financing Fees	202,194		202,194		274,009			274,009
Bond Issue Costs	5,633,194		5,633,194		2,941,769			2,941,769
Professional Fees & Services					472,049			472,049
Other Fees					28,501			28,501
Total Expenditures/Expenses	17,422,874		17,422,874		82,892,484	(24,485,000)	58,407,484	58,407,484
Excess (Deficit) of Revenues over Expenditures	105,695,644		105,695,644		29,380,809	24,485,000		53,865,809
Other Financing Sources (Uses):								
Bond and Note Proceeds	1,000,000,000	(1,000,000,000)	0	0	750,000,000	(750,000,000)		0
Discount on Bonds Issued	(279,212)		(279,212)		0			0
Premium on Bonds Issued	45,033,347		45,033,347		23,288,275			23,288,275
Operating Transfer Out	(342,182,776)		(342,182,776)		(1,300,757,489)			(1,300,757,489)
Total Other Financing Sources (Uses)	702,571,359	(1,000,000,000)	(297,428,641)	(297,428,641)	(527,469,214)	(750,000,000)	(1,277,469,214)	(1,277,469,214)
Change in Fund Balance/Net Assets	808,267,003	(1,000,000,000)	(191,732,997)	(191,732,997)	(498,088,405)	(725,515,000)		(1,223,603,405)
Fund Balance/Net Assets:								
Beginning Fund Balance	0		0	0	808,267,003	(1,000,000,000)		(191,732,997)
Ending Fund Balance	808,267,003	(1,000,000,000)	(191,732,997)	(191,732,997)	310,178,598	(1,725,515,000)	(1,415,336,402)	(1,415,336,402)

Source: Annual Financial Report of the Texas Mobility Fund For the Fiscal Years ended August 31, 2005 and August 31, 2006. Results for the Fiscal Year ended August 31, 2005 are audited by the Texas State Auditor's Office. Results for the Fiscal Year ended August 31, 2006 are unaudited.

⁽¹⁾ Beginning with the fiscal year ending August 31, 2005, the Fund was reclassified as a governmental fund. In prior years, the Fund was classified as a proprietary fund and a Statement of Revenues, Expenses, and Changes in Net Assets was prepared in compliance with reporting standards for proprietary funds.

⁽²⁾ For the period from inception of the Fund through August 31, 2005.

⁽³⁾ The amount reported for the Fiscal Year ended August 31, 2005 includes \$836,210 of accrued interest received in connection with the delivery of the Series 2005-A Bonds, and the amount reported for the Fiscal Year ended August 31, 2006 includes \$716,536 of accrued interest received in connection with the delivery of the Series 2006 Bonds.

⁽⁴⁾ The amount reported consists of Motor Vehicle Inspection Fees in the amount of \$82,470,874, Motor Carrier Act Penalties in the amount of \$1,833,079 and adjustments to fees reported for the Fiscal Year ended August 31, 2005 in the amount of (\$15,994).

Mobility Fund Revenue Forecast. To the extent required by law, before Program obligations are issued payable from a pledge of and lien on all or part of the money in the Fund, the Comptroller must project and certify that the amount of money dedicated to and required to be on deposit in the Fund pursuant to the Constitutional Provision, and the investment earnings on that money, during each year of the period during which the proposed obligations are scheduled to be outstanding will be equal to at least 110% of the principal and interest requirements on the proposed obligations during that year. Current law requires that for the purpose of so certifying for the issuance of short-term obligations (obligations with a final stated maturity of five years or less), the Comptroller must assume that the short-term obligations will be refunded and refinanced to mature over a 20-year period with level principal requirements and bearing interest at then current market rates, as determined by the Comptroller. The Comptroller's Mobility Fund Revenue Forecast, dated as of September 20, 2006, is shown on the following page in Table 4. Based on the forecast in Table 4 and the Department's certification of annual debt service due on the Bonds as shown in Table 5, the Comptroller has made the certification described above with respect to the Bonds. Certain payment obligations of the Commission that constitute Parity Debt (such as the Commission's obligation to reimburse the provider of a credit agreement for amounts drawn pursuant to such credit agreement), may be excluded from existing debt service requirements included in the Comptroller's certification. **THERE CAN BE NO ASSURANCES THAT REVENUES ACTUALLY DEPOSITED INTO THE FUND WILL BE DEPOSITED, EITHER AS TO TYPE OF REVENUES, TIMING OF DEPOSIT, OR AMOUNT, AS FORECAST IN TABLE 4 BELOW.** See "OTHER INFORMATION – Forward-Looking Statements."

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**Table 4: Texas Mobility Fund Estimated Revenues⁽¹⁾
(in Thousands)**

Fiscal Year	Court Fines	Driver's License Points Surcharges	Motor Vehicle Inspection Fees	Driver's License Fees	Driver Record Information Fees	United We Stand License Fees	Certificate of Title Fees	Motor Carrier Act Penalties	Depository Interest	Total
2004	\$ 39,160	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 89	\$39,249 ⁽²⁾
2005	59,606	18,176	0	0	0	0	0	0	5,251	83,033 ⁽²⁾
2006	0	0	82,471	0	0	1	0	1,833	27,269	111,574 ⁽²⁾
2007	0	0	87,439	0	54,048	1	0	1,000	4,500	146,988
2008	0	0	91,785	117,815	54,916	1	0	1,000	4,500	270,017
2009	0	0	96,524	119,582	55,798	1	91,112	1,000	4,500	368,517
2010	0	0	101,700	121,376	56,695	1	94,028	1,000	4,500	379,300
2011	0	0	103,734	123,197	57,606	1	95,000	1,000	4,500	385,038
2012	0	0	105,809	125,045	58,470	1	96,000	1,000	4,500	390,825
2013	0	0	107,925	126,921	59,347	1	97,000	1,000	4,500	396,694
2014	0	0	110,084	128,825	60,237	1	98,000	1,000	4,500	402,647
2015	0	0	112,286	130,757	61,141	1	99,000	1,000	4,500	408,685
2016	0	0	114,532	132,718	62,058	1	100,000	1,000	4,500	414,809
2017	0	0	116,823	134,709	62,989	1	102,000	1,000	4,500	422,022
2018	0	0	119,159	136,730	63,934	1	104,000	1,000	4,500	429,324
2019	0	0	121,542	138,781	64,893	1	106,000	1,000	4,500	436,717
2020	0	0	123,973	140,863	65,866	1	108,000	1,000	4,500	444,203
2021	0	0	126,452	142,976	66,854	1	110,000	1,000	4,500	451,783
2022	0	0	128,981	145,121	67,857	1	112,000	1,000	4,500	459,460
2023	0	0	131,561	147,298	68,875	1	114,000	1,000	4,500	467,235
2024	0	0	134,192	149,507	69,908	1	116,000	1,000	4,500	475,108
2025	0	0	136,876	151,750	70,957	1	118,000	1,000	4,500	483,084
2026	0	0	139,614	154,026	72,021	1	120,000	1,000	4,500	491,162
2027	0	0	142,406	156,336	73,101	1	122,000	1,000	4,500	499,344
2028	0	0	145,254	158,681	74,198	1	124,000	1,000	4,500	507,634
2029	0	0	148,159	161,061	75,311	1	126,000	1,000	4,500	516,032
2030	0	0	151,122	163,477	76,441	1	128,000	1,000	4,500	524,541
2031	0	0	154,144	165,929	77,588	1	130,000	1,000	4,500	533,162
2032	0	0	157,227	168,418	78,752	1	132,000	1,000	4,500	541,898
2033	0	0	160,372	170,944	79,933	1	134,000	1,000	4,500	550,750
2034	0	0	163,579	173,508	81,132	1	136,000	1,000	4,500	559,720
2035	0	0	166,851	176,111	82,349	1	138,000	1,000	4,500	568,812
2036	0	0	170,188	178,753	83,584	1	140,000	1,000	4,500	578,026

Source: Texas Comptroller of Public Accounts, September 20, 2006

⁽¹⁾ This forecast does not anticipate surplus revenues from regional mobility authorities, Court Fines or Driver's License Points Surcharges. See "—Miscellaneous Sources" above.

⁽²⁾ Amounts for Fiscal Years 2004, 2005 and 2006 represent actual deposits to the Fund.

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Table 5 - Projected Debt Service Coverage for Parity Debt

Based on the Comptroller's revenue forecast shown in Table 4 (above), Table 5 shows the projected debt service coverage for Parity Debt, including the Bonds and the previously issued Outstanding Parity Debt.

Fiscal Year	Outstanding Parity Debt Service ⁽¹⁾	The Bonds ⁽²⁾			Total Parity Debt Service ⁽³⁾	Comptroller's Revenue Estimate ⁽⁴⁾	Revenue as a % of Total Debt Service
		Principal	Interest	Total			
2007	\$ 131,875,489	\$ 0	\$ 1,701,456	\$ 1,701,456	\$ 133,576,946	\$ 146,988,000	110%
2008	160,582,335	0	7,163,358	7,163,358	167,745,693	270,017,000	161%
2009	160,945,261	0	5,371,784	5,371,784	166,317,045	368,517,000	222%
2010	161,871,755	0	5,378,881	5,378,881	167,250,636	379,300,000	227%
2011	162,762,843	0	5,378,881	5,378,881	168,141,723	385,038,000	229%
2012	163,599,558	0	5,386,310	5,386,310	168,985,868	390,825,000	231%
2013	164,432,326	0	5,371,784	5,371,784	169,804,110	396,694,000	234%
2014	165,180,879	0	5,378,881	5,378,881	170,559,760	402,647,000	236%
2015	165,900,364	0	5,378,881	5,378,881	171,279,245	408,685,000	239%
2016	166,556,981	0	5,386,310	5,386,310	171,943,291	414,809,000	241%
2017	168,211,449	0	5,371,784	5,371,784	173,583,233	422,022,000	243%
2018	171,347,716	0	5,378,881	5,378,881	176,726,597	429,324,000	243%
2019	174,530,077	0	5,378,881	5,378,881	179,908,957	436,717,000	243%
2020	177,735,227	0	5,386,310	5,386,310	183,121,537	444,203,000	243%
2021	181,022,726	0	5,371,784	5,371,784	186,394,510	451,783,000	242%
2022	184,317,826	0	5,378,881	5,378,881	189,696,707	459,460,000	242%
2023	187,662,657	0	5,378,881	5,378,881	193,041,537	467,235,000	242%
2024	191,042,039	0	5,386,310	5,386,310	196,428,349	475,108,000	242%
2025	194,500,544	0	5,371,784	5,371,784	199,872,328	483,084,000	242%
2026	197,965,830	0	5,378,881	5,378,881	203,344,711	491,162,000	242%
2027	201,484,992	0	5,378,881	5,378,881	206,863,873	499,344,000	241%
2028	205,040,289	0	5,386,310	5,386,310	210,426,599	507,634,000	241%
2029	208,678,017	0	5,371,784	5,371,784	214,049,801	516,032,000	241%
2030	212,326,266	0	5,378,881	5,378,881	217,705,147	524,541,000	241%
2031	215,970,688	0	5,378,881	5,378,881	221,349,568	533,162,000	241%
2032	219,663,425	0	5,386,310	5,386,310	225,049,735	541,898,000	241%
2033	223,505,763	0	5,371,784	5,371,784	228,877,547	550,750,000	241%
2034	227,350,738	0	5,378,881	5,378,881	232,729,618	559,720,000	241%
2035	200,592,375	19,890,000	5,143,023	25,033,023	225,625,398	568,812,000	252%
2036	31,425,000	130,110,000	3,133,307	133,243,307	164,668,307	578,026,000	351%
Total	\$5,378,081,430	\$150,000,000	\$156,986,945	\$306,986,945	\$5,685,068,375	\$13,503,537,000	

- (1) Debt service on the Series 2005-B Variable Rate Bonds calculated at a rate of approximately 3.585%, including remarketing and liquidity fees.
- (2) Debt service on the Bonds while in the Initial Mode is calculated at the Initial Rate of 3.52% and after the Initial Mode at a rate of approximately 3.585%, including remarketing and liquidity fees.
- (3) The amounts shown do not take into account any amounts payable or received by the Commission pursuant to the Series 2006-A Basis Swap Agreements. To the extent that the Commission makes or receives net payments under the Series 2006-A Basis Swap Agreements during any fiscal year, the net debt service on Parity Debt will be greater or less than the respective amount shown in this table for such fiscal year. See "- Credit Agreements" herein for a description of the Series 2006-A Basis Swap Agreements.
- (4) Comptroller's revenue estimates provided to the Department and dated September 20, 2006.

Credit Agreements

The Enabling Act and the Resolution authorize the Commission at any time to enter into one or more Credit Agreements to secure Parity Debt, including the Bonds, in whole or in part. The Resolution provides that the Commission may execute and deliver a Credit Agreement upon the receipt of a certificate signed by an Authorized Representative of the Department to the effect that such Credit Agreement is in the best interest of the Commission. Each Credit Agreement must be approved by the Commission to the extent required by law.

Credit Agreements may include loan agreements; revolving credit agreements; agreements establishing a line of credit; letters of credit; reimbursement agreements; insurance contracts; commitments to purchase Parity Debt; purchase or sale agreements; interest rate swap, cap, and/or floor agreements or commitments; or other contracts or agreements 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 Parity Debt, the interest on Parity Debt, or both. Payments to be made by the Commission under the terms of any Credit Agreement will be governed by the resolution adopted by the Commission authorizing the execution and delivery of such Credit Agreement. Credit Agreements may be entered into as Parity Debt, as Subordinate Debt, or partially as Parity Debt and partially as Subordinate Debt.

Pursuant to the Fifth Supplemental Resolution, the Commission will enter into a "Standby Bond Purchase Agreement" dated as of December 1, 2006 (the "Series 2006-B Liquidity Facility") with State Street Bank and Trust Company, as administrative agent, and State Street Bank and Trust Company and the California Public Employees' Retirement System, as liquidity providers (collectively, the "Series 2006-B Liquidity Facility Issuer") to provide liquidity for Bonds which provides for the purchase, in accordance with the terms thereof, of the Bonds which bear interest at the Initial Rate, a Daily Rate or a Weekly Rate and that are tendered for purchase as provided in the Fifth Supplemental Resolution but not remarketed by the Remarketing Agent. In addition, pursuant to the Second Supplemental Resolution to the Master Resolution, the Commission entered into a "Standby Bond Purchase Agreement" dated as of May 1, 2005 (the "Series 2005-B Liquidity Facility" and, together with the Series 2006-B Liquidity Facility, the "Liquidity Facilities") with DEPFA BANK plc, acting through its New York Branch (the "Series 2005 B Liquidity Facility Issuer" and, together with the Series 2006-B Liquidity Facility Issuer, the "Liquidity Facility Issuers"), to provide a liquidity facility for its Texas Transportation Commission State of Texas General Obligation Mobility Fund Bonds, Series 2005-B (the "Series 2005-B Variable Rate Bonds"), which provides for the purchase, in accordance with the terms thereof, of the Series 2005-B Variable Rate Bonds which bear interest at a Daily Rate or a Weekly Rate and that are tendered for purchase as provided in the Second Supplemental Resolution but not remarketed by the remarketing agent. The Commission's obligations to make payments to the Liquidity Facility Issuers under the Liquidity Facilities are Parity Debt, additionally secured by the full faith and credit of the State.

Pursuant to the Fourth Supplemental Resolution to the Master Resolution, the Commission entered into interest rate swap transactions (the "Series 2006-A Bond Swap Agreements") in connection with its Texas Transportation Commission State of Texas General Obligation Mobility Fund Bonds, Series 2006-A. The Series 2006-A Bond Swap Agreements are floating-to-floating rate swap transactions with JPMorgan Chase Bank, N.A., Goldman Sachs Mitsui Marine Derivative Products, L.P. and Morgan Stanley Capital Services Inc. (collectively, the "Basis Swap Counterparties") in the aggregate notional amount of \$400 million for terms of twenty years. During the term of the Series 2006-A Bond Swap Agreements, the Commission is obligated to pay to each Basis Swap Counterparty an amount equal to the BMA Municipal Swap Index on the notional amount of the Series 2006-A Basis Swap Agreement with such Basis Swap Counterparty. In return, each Basis Swap Counterparty is obligated pay the Commission an amount equal to a fixed percentage of the USD-ISDA-Swap Rate assuming a 10-year Designated Maturity (which is a reported market fixed rate at which 10-year interest rate swaps for a one month U.S. dollar LIBOR rate are entered into from time to time) on the notional amount of the Series 2006-A Basis Swap Agreement with such Basis Swap Counterparty. The obligation of the Commission to make regularly scheduled payments to the Basis Swap Counterparties under the Series 2006-A Bond Swap Agreements will be payable from the Security and secured on a parity with the Commission's obligation to pay principal of and interest on Parity Debt; however, the Commission's obligation to pay any amounts from the Security owed as a result of an early termination of the Series 2006-A Bond Swap Agreements will be subordinate to the Commission's obligation to pay principal of and interest on Parity Debt. In addition, the obligations of the Commission under the Series 2006-A Bond Swap Agreements are secured by the full faith and credit of the State.

The Commission currently is not a party to any other Credit Agreement for any Parity Debt, including the Bonds, and except for the Series 2006-B Liquidity Facility, does not currently intend to enter into any other Credit Agreement with respect to the Bonds or any other Parity Debt, but has the ability to enter into Credit Agreements at any time for the Bonds or other issues of Parity Debt.

Enforcement

Pursuant to the Constitutional Provision and as allowed by other law, the State has waived sovereign immunity with respect to the enforcement of the obligations of the Commission and the State pursuant to mandamus

proceedings. Any Owner of the Bonds, including Purchased Bonds, and the Liquidity Facility Issuer provided that the Liquidity Facility Issuer is not in default under its Liquidity Facility, in the event of default in connection with any covenant contained in the Resolution or default in the payment of the Annual Debt Service Requirements due in connection with the Bonds, including any Purchased Bonds, or other costs and expenses related thereto, may require the Commission, the Department, its officials and employees, the State, and any appropriate official of the State to carry out, respect, or enforce the covenants and obligations of the Resolution by all legal and equitable means, including specifically the use and filing of mandamus proceedings in a district court in Travis County, Texas against the Commission, the Department, its officials and employees, the State, or any appropriate official of the State.

Limitation of Liability of Officials of the Commission

No present or future member of the Commission or agent or employee of the Department, in his or her individual capacity, and neither the members of the Commission nor any official executing the Bonds will be liable personally for payment on the Bonds or the previously issued Outstanding Parity Debt or be subject to any personal liability or accountability by reason of the issuance of the Bonds or the previously issued Outstanding Parity Debt.

Creation of Accounts and Subaccounts Within the Mobility Fund

The Master Resolution creates: (i) the Mobility Fund General Account (the "General Account"); (ii) the Mobility Fund Portfolio Account (the "Portfolio Account"); (iii) the Mobility Fund Interest and Sinking Account (the "Interest and Sinking Account"); and (iv) the Mobility Fund Bond Proceeds Account (the "Bond Proceeds Account") (collectively, the "Accounts"). The Fifth Supplemental Resolution creates the Rebate Fund for the Bonds (the "Rebate Fund").

General Account. All Pledged Revenues must be deposited in the General Account immediately upon receipt by the Department, the Comptroller, or other applicable State agency. All money remaining in the General Account, after making the deposits required by the Master Resolution and the applicable Supplement including deposits and transfers to the Interest and Sinking Account to meet all financial obligations of the Commission relating to the Program including payments due on or with respect to the payment of Parity Debt as the same mature or come due, may be used for any lawful purpose for which the Mobility Fund may be used pursuant to the Constitutional Provision, the Enabling Act, and other State law.

Interest and Sinking Account. Pledged Revenues will be transferred to the Interest and Sinking Account to the extent needed to make payments due on Parity Debt, including the Bonds. The Interest and Sinking Account must be used to pay the principal of, redemption premium, if any, and interest on Parity Debt as the same become due and payable, whether at Stated Maturity or upon prior redemption, so long as any Parity Debt, including the Bonds, is outstanding.

Portfolio Account. Transportation Assistance Bonds, if any, pledged by the Commission to the payment of Parity Debt, will be deposited into the Portfolio Account and held there until paid. Repayments of such pledged Transportation Assistance Bonds, if any, will be deposited into the General Account.

Bond Proceeds Account. With the exception of proceeds allocated to underwriter's discount and premiums for bond insurance, proceeds from the issuance of Parity Debt, including the Bonds, must be deposited, as provided by the applicable Supplement, into the Bond Proceeds Account until expended to accomplish the purposes for which such Parity Debt was issued. Amounts in the Bond Proceeds Account do not constitute Security.

Rebate Fund. The Fifth Supplemental Resolution establishes the Rebate Fund for the Bonds. Money on deposit in the Rebate Fund, if any, will be paid to the United States of America in compliance with the provisions of section 148(f) of the Code. Money in the Rebate Fund, if any, does not constitute Security.

Reserve Accounts. The Commission may establish one or more reserve accounts within the Mobility Fund for the purpose of paying or securing Parity Debt or any particular series or issue of Parity Debt, and any such reserve account so established may be funded with a surety bond, insurance policy, or other Credit Agreement, to the extent permitted by law. The Commission has not established a reserve account for Parity Debt, including the Bonds.

Purchase Fund. A Purchase Fund will be established by the Commission in connection with the delivery to the Tender Agent of the Initial Liquidity Facility, which Fund will be held by the Tender Agent and may have such separate accounts as will be established upon written direction of the Commission to the Tender Agent. Such Purchase Fund and accounts therein will be used for the purpose of depositing money obtained from (a) the

remarketing of Bonds, and (b) draws under a Liquidity Facility, and such deposited money will be used solely to pay the Purchase Price of Bonds or to reimburse a Liquidity Facility Issuer for a drawing on the Liquidity Facility to pay the Purchase Price of Bonds.

Other Accounts. The Commission may establish other accounts or subaccounts for other purposes.

Flow of Funds

All Pledged Revenues will be deposited in the General Account immediately upon receipt by the Department, the Comptroller, or other State agency. Pledged Revenues will be transferred from the General Account to the other Accounts, subaccounts, or funds in the Fund in the following priority order:

FIRST: to the payment of amounts required to be deposited and credited to the Interest and Sinking Account to meet all financial obligations of the Commission relating to the Program, including payments due on or with respect to the payment of Parity Debt as the same mature or come due;

SECOND: pro rata, on the basis that the Outstanding Principal Amount of each particular issue or series of Parity Debt secured by a reserve account bears to the aggregate Outstanding Principal Amount of all such issues or series of such Parity Debt secured by any reserve account, to the payment of the amounts required to be deposited and credited to each reserve account created and established to maintain a reserve in accordance with the provisions of any Supplement relating to the issuance of any Parity Debt;

THIRD: any amounts to be deposited into any other fund, account, or subaccount to the extent required pursuant to the provisions of any Supplement relating to the issuance of Parity Debt;

FOURTH: to the extent required by any resolution or other instrument adopted or approved by the Commission pursuant to which Subordinated Debt is issued, the amount necessary to meet all financial obligations on such Subordinated Debt and to accumulate or restore any required reserves to ensure payment of such principal, redemption premium, and interest will be deposited to any account or subaccount created for such purpose; and

FIFTH: all remaining Pledged Revenues must be retained in the General Account.

Investment of Funds

Pursuant to Section 201.946, Texas Transportation Code, the Fund may be invested in investments permitted by law for the investment of money on deposit in the State Highway Fund, which under current law is governed by Section 404.024, Texas Government Code ("Section 404.024"). Section 201.942, Texas Transportation Code, charges the Commission with the responsibility of investing the Fund. In furtherance of such investment responsibility, the Commission has executed an investment agreement with the Comptroller, acting by and through the Texas Treasury Safekeeping Trust Company ("Safekeeping Trust"), to assist the Commission, when requested by the Commission, with investing all or any portion of the Fund. See "FUND ADMINISTRATION, INVESTMENT AND CUSTODY" herein. The Commission has adopted an investment policy which includes the Fund (the "Investment Policy") in accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code. Therefore, the Commission is authorized to invest or cause to be invested funds on deposit within the Fund in those permitted investments authorized under Section 404.024, as further modified by the Investment Policy. The Investment Policy and Texas law are subject to further change and amendment. Based on the current Investment Policy and current law, the Fund, as well as the Bond proceeds, may be invested in the following: (i) direct obligations of the United States or its agencies and instrumentalities; (ii) direct obligations of the State or its agencies and instrumentalities rated as to investment quality by a nationally-recognized investment firm of not less than "A;" (iii) subject to the specific prohibitions described below, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States (such transactions not to exceed 10% of the total of each investment portfolio under the Investment Policy); (iv) other obligations, the principal and interest of which are unconditionally guaranteed by the State or the United States or their respective agencies and instrumentalities; (v) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally-recognized investment rating firm not less than "AA" or its equivalent (such transactions not to exceed 10% of the total of each investment portfolio under the Investment Policy); (vi) certificates of deposit that are issued by a state or national bank, a savings bank, or a state or federal credit union designated as a State depository and are (a) guaranteed or insured by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund, or their successors, (b) secured by obligations described in clauses (i)

through (v) above, including permitted mortgage-backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, or (c) secured in any other manner and amount provided by law for deposits of the Commission (such transactions not to exceed 20% of the total of each investment portfolio under the Investment Policy); (vii) fully collateralized repurchase agreements that have a defined termination date, are secured by obligations described in clauses (i) through (v) above; require the securities being purchased by the Commission to be pledged to the Commission, held in the Commission's name, and deposited at the time the investment is made with the Commission or with a third party selected and approved by the Commission; and are placed through a primary government securities dealer or a financial institution doing business in the State; (viii) certain bankers' acceptances with a stated maturity of 270 days or fewer from the date of issuance that will be liquidated in full at maturity and that are eligible for collateral for borrowing from a Federal Reserve Bank and accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank (or a bank holding company of which the bank is the largest subsidiary) are rated not less than "A-1" or "P-1" or an equivalent rating by at least one nationally recognized credit rating agency (such transactions not to exceed 5% of the total of each investment portfolio under the Investment Policy); (ix) commercial paper with a stated maturity of 270 days or fewer that is rated at least "A-1" or "P-1," or the equivalent, by at least (a) two nationally-recognized rating agencies or (b) one nationally-recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state (such transactions not to exceed 15% of the total of each investment portfolio under the Investment Policy with no more than 5% in any one name); (x) no-load money market mutual funds that are registered with and regulated by the SEC and provide the Commission with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940, have a dollar-weighted average stated maturity of 90 days or fewer, and include in their investment objectives the maintenance of a stable net asset value of \$1.00 for each share (such transactions not to result in an investment in any one mutual fund in an amount that exceeds 10% of the total assets of the mutual fund); (xi) subject to certain limitations described below, no-load mutual funds that are registered with the SEC, have an average weighted maturity of less than two years, invest exclusively in obligations permitted under the Investment Policy, are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent, and conform to the requirements set forth in the Public Funds Investment Act relating to the eligibility of investment pools to receive and invest funds of investing entities; (xii) bonds issued, assumed, or guaranteed by the State of Israel; and (xiii) certain securities lending programs.

The Commission may invest its funds and funds under its control through an eligible investment pool that is established by the Safekeeping Trust and invests solely in obligations authorized under State law; provided, that the pool is rated no lower than "AAA" or "AAA-m" or an equivalent by at least one nationally-recognized rating service, operates like a mutual fund, and has a portfolio consisting only of dollar denominated securities.

The Commission is specifically prohibited from investing in: (i) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (interest only obligations); (ii) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest (principal only obligations); (iii) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; (iv) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index (inverse floaters); (v) a no-load mutual fund described in clause (x)(b) above (such limitation is applicable to bond proceeds); and (vi) investments of any type which are denominated in a foreign currency.

Under State law, the Commission is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for Commission funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All Commission funds must be invested consistent with a formally adopted "Investment Strategy" that specifically addresses each fund's investment. Each Investment Strategy will describe its objectives concerning: (i) suitability of the investment to the financial requirements of the Commission, (ii) preservation and safety of principal, (iii) liquidity, (iv) marketability of each investment if the need arises to liquidate prior to maturity, (v) diversification of the portfolio, and (vi) yield.

Under State law, the Commission's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the

probable income to be derived.” At least quarterly, the Commission’s investment officers must submit an investment report to the Commission including: (i) the book value and market value for each investment at the beginning and end of the reporting period; (ii) if the funds are pooled and invested, a summary statement, prepared in accordance with generally accepted accounting principles, presenting the beginning market value of the pool portfolio, changes in market value during the reporting periods, the ending market value of the portfolio and fully accrued interest for the reporting period; (iii) the maturity date of each investment, if applicable; (iv) a statement of intent if some or all securities are intended to be held to maturity; (v) any variations from the investment strategy of the Commission; (vi) recommended amendments to current specific investment strategies; and (vii) analysis of current market conditions.

Under State law, the Commission is additionally required to: (i) annually review its adopted policies and strategies; (ii) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the Commission to disclose the relationship and file a statement with the Texas Ethics Commission and the Commission; (iii) require the registered principal of firms seeking to sell securities to the Commission to (a) receive and review the Commission’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (iv) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the Commission’s investment policy; (v) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (vi) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the Commission’s monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (vii) require local government investment pools to conform to the disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (viii) provide specific investment training for the investment officers.

FUND ADMINISTRATION, INVESTMENT AND CUSTODY

The Commission and the Comptroller have entered into the “Texas Mobility Fund Administration Agreement” (the “Administration Agreement”) and the “Investment Agreement” (the “Investment Agreement”) with respect to the Program. In addition, the Commission expects to enter into a “Master Custodial Services Agreement” (the “Custodial Agreement”) with The Northern Trust Company (“Northern Trust”) with respect to the Program. Set forth below are summaries of certain provisions of the Administration Agreement which provides for the administration of the proceeds of the Bonds and other obligations secured by the Fund and availability of funds for the payment thereof, the Investment Agreement which provides for the management, disbursement, safekeeping, and investment of certain funds and securities in the Fund to the extent that the Department requests the assistance of the Safekeeping Trust in the investment of such funds, and the Custodial Agreement which provides for the management, disbursement, safekeeping, and investment of certain funds and securities in the Fund. These summaries do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the Administration Agreement, the Investment Agreement, and the Custodial Agreement, respectively. Copies of the Administration Agreement, the Investment Agreement, and the Custodial Agreement are available for examination at the offices of the Department.

Texas Mobility Fund Administration Agreement

Establishment of Accounts and Subaccounts. The Comptroller is required to establish and maintain accounts and funds within the Fund for the application of money with respect to the Bonds. See “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – Creation of Accounts and Subaccounts Within the Mobility Fund.”

Deposit of Purchase Price. The purchase price of the Bonds, net of underwriter’s discount, must be remitted to the Comptroller for deposit into the appropriate account within the Fund, and all other costs of issuance payable from Bond proceeds must be paid from the Bond Proceeds Account.

Payment of Parity Debt. The Department will cause the transfer of money from the Interest and Sinking Account for the payments due on any particular series of Parity Debt for payment to the Paying Agent/Registrar. If the Commission and the Comptroller determine that there are not sufficient funds in the Fund available for payments due on Parity Debt, including the Bonds, the Comptroller, upon receipt of a warrant drawn from money available pursuant to the Constitutional Provision must transfer an amount of immediately available funds sufficient, together

with funds then on deposit in the Fund, to pay such Parity Debt, at such time as will permit such Parity Debt to be timely paid.

Investments. Money held in the Fund will be invested in accordance with State law. At the request of the Department, the Comptroller, acting through the Safekeeping Trust, may assist the Department with the custody, investment, or custody and investment of all or any portion of the Fund pursuant to the Investment Agreement. See “ - Texas Mobility Fund Investment Agreement” below.

Certification. Under current State law, the Bonds may not be issued unless the Comptroller projects that the amount of money dedicated to and required to be on deposit in the Fund pursuant to the Constitutional Provision, and the investment earnings on that money, during each year of the period during which the Bonds are scheduled to be Outstanding, will be equal to at least 110% of the requirements to pay the principal of and interest on the Bonds during such year. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Other Sources of Payment – Table 4: Texas Mobility Fund Estimated Revenues.” As provided in the Master Resolution, for the purposes of this certification, the Department’s Chief Financial Officer will certify the outstanding and proposed annual debt service requirements. Certain payment obligations of the Commission that constitute Parity Debt (such as the Commission’s obligation to reimburse the provider of the Liquidity Facility or any other credit agreement for amounts drawn pursuant to such credit agreement), may be excluded from existing debt service requirements included in the Comptroller’s certification.

Under current State law, short-term obligations to be issued for the Program may not be issued unless the Comptroller: (i) assumes that the short-term obligations will be refunded and refinanced to mature over a 20-year period with level principal requirements and bearing interest at then current market rates, as determined by the Comptroller and (ii) projects that the amount of money dedicated to the Fund pursuant to Article III, Section 49-k(e), Texas Constitution, and required to be on deposit in the Fund pursuant to Article III, Section 49-k(f), Texas Constitution, and the investment earnings on that money, during each year of the assumed 20-year period, will be equal to at least 110% of the requirements to pay the principal of and interest on the proposed short-term obligations during such year.

Texas Mobility Fund Investment Agreement

Investment of Mobility Fund Balances. Money held in the Fund may be invested (and reinvested) in any investments permitted by law for the investment of money on deposit in the State Highway Fund and in compliance with the Commission’s Investment Policy. Pursuant to the Investment Agreement, investments may be made through an authorized broker-dealer or by the Comptroller, acting by and through the Safekeeping Trust, as determined by the Department. The money and investments of the Fund may be commingled with other funds held by the Safekeeping Trust to obtain the highest and best investment yield then available to the Fund, as a whole.

Treatment of Profits and Losses. All earnings and profits from an investment in the Fund must be credited to and deposited as received in the account or fund for which the investment was made. Likewise, all losses resulting from an investment will be charged against the account or fund for which the investment was made. If an investment is made for more than one account or fund, profits and losses will be credited or charged, as appropriate, pro rata among the accounts or funds for which the investment was acquired.

Liability. None of the Comptroller, the Safekeeping Trust, nor any Comptroller employee will be held liable for any action or omission to act pursuant to the Investment Agreement unless such action or omission to act is due to negligence or willful misconduct.

Master Custodial Services Agreement

Establishment of Accounts and Subaccounts. Northern Trust is required to establish an account (the “Account”) to hold such assets of the various funds for which the Commission has administrative and investment responsibility as are transferred to Northern Trust from time to time. The Commission shall direct Northern Trust to establish one or more separate accounts (“Separate Account”) within the Account for cash, securities and other property received by Northern Trust from time to time. Each Separate Account shall be managed by either the Commission or an investment manager appointed by the Commission.

Performance. To the extent Northern Trust exercises discretion with respect to the investment of any assets under the Custodial Agreement, Northern Trust shall adhere to all applicable sections of the Commission’s Investment Policy, as they exist at the inception of the Custodial Agreement and as they may be amended or revised during the term of the Custodial Agreement; notwithstanding the foregoing, to the extent Northern Trust exercises

discretion with respect to the investment of any cash held in the Account, Northern Trust shall adhere to the provisions of the Commission's Investment Policy that apply to short-term cash investments.

THE COMMISSION AND THE DEPARTMENT

The Commission

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

Due to a resignation, there is one vacancy on the Commission. The current members of the Commission are listed below.

Ric Williamson, Chair

Richard F. ("Ric") Williamson was appointed to the Commission by Governor Rick Perry in March 2001. Before serving on the Commission, Mr. Williamson served from 1985-1998 in the Legislature. During his tenure with the Legislature, Mr. Williamson served on a number of legislative committees including the House/Senate Budget Conference Committee, the House Appropriations Committee, the House Ways and Means Committee, the House Select Committee on Revenue and Public Education Funding, the House/Senate Criminal Justice Conference Committee, the Health and Human Services Conference Committee, the House Juvenile Justice and Family Issues Committee, and the House/Senate Fiscal Management Conference Committee. Mr. Williamson serves or has served on several boards including the Southern Regional Education Board, the Legislative Budget Board, the Department of Information Resources, the Uniform Statewide Accounting System Committee, the Southern Legislative Conference, and the Weatherford Little League Association. *Texas Monthly* named Mr. Williamson among the "Ten Best Legislators" (1989 and 1991) and *The Dallas Morning News* recognized Mr. Williamson as "Best of the 75th Legislative Session" (1997). He has also received the 1992 Texas Chamber of Commerce Leadership Award. Mr. Williamson received a B.A. degree from The University of Texas in Austin in 1974 and went on to found and operate a natural gas production company.

Hope Andrade, Commissioner

Ms. Andrade, appointed to the Commission by Governor Perry in December of 2003, is a business leader who has co-founded five enterprises in Texas: OptimaCare Inc.; The Domestic Agency; PrimaStaff of Dallas, Inc.; Prima Staff Home Health; and MissionPlus Hospice LLC. Ms. Andrade is serving or has served on a number of boards for various organizations including the Texas Turnpike Authority, VIA Metropolitan Transit, the Greater San Antonio Hispanic Chamber of Commerce, the Free Trade Alliance of San Antonio, the United Way of San Antonio, the San Antonio Symphony, and Our Lady of the Lake University. Ms. Andrade received the Esperanza Award (Hope for Children) from the Southwest Mental Health Center, was named Small Business Advocate of the Year by the Small Business Administration, was awarded the Spirit of Entrepreneurship Award by the Republican National Committee, and inducted into the Leadership Hall of Fame by Leadership San Antonio. Ms. Andrade is a graduate of Our Lady of the Lake University and the University of Incarnate Word.

Ted Houghton, Commissioner

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

John W. Johnson, Commissioner

Mr. Johnson was appointed to the Commission by Governor George W. Bush in February 1999. Mr Johnson is chairman of Permian Mud Service Inc., and chairman of the executive committee of Permian Mud's subsidiary, Champion Technologies Inc. Permian Mud Service Inc. is an oil field service business, and its subsidiaries have operations worldwide where oil and gas are produced. Mr. Johnson was the founding chairman of Southwest Bank of Texas, and now serves as chairman of the Bank's executive committee. Mr. Johnson currently serves on the Governor's Business Council and on the Task Force on Charter Schools. He has also served on the J. William Fulbright Foreign Scholarship Board. Mr. Johnson currently serves or has served as a trustee of St. Luke's Methodist Church Foundation, chairman of the board of the Houston Museum of Natural Science and of St. John's School, and he received the St. John's School Distinguished Alumnus Award. Mr. Johnson is a past director of Goodwill Industries and was actively involved in the American Leadership Forum and the Young Presidents' Organization. Mr. Johnson earned a bachelor's degree in civil engineering from Vanderbilt University and is a former member of Vanderbilt's Board of Trustees. Although Mr. Johnson's term on the Commission expired in February, 2005, he continues to serve until a replacement is appointed.¹

The Department

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

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

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

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

¹ Under Article XVI, Section 17, Texas Constitution, all officers within the State continue to perform the duties of their offices until their successors are duly qualified.

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

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

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

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

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

Michael W. Behrens, P.E., Executive Director

Mr. Behrens, appointed Executive Director by the Commission in 2001, earned a bachelor's degree in civil engineering from Texas A&M University, and began his career with the Department as an engineering assistant in the Yoakum District. Positions held by Mr. Behrens during his tenure with the Department include La Grange area engineer, district planning engineer, assistant district engineer, district engineer for the Yoakum District, and assistant executive director for engineering operations. Mr. Behrens is a member of the Transportation Research Board Executive Committee and of the board of directors of the American Association of State Highway and Transportation Officials (AASHTO). He has served as president of the Western Association of State Highway and Transportation Officials (WASHTO), and serves on the Civil Engineering Council for Texas A&M University. He also serves on the Texas Transportation Institute Advisory Council and has served as president of the Yoakum Independent School District Board of Trustees.

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

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

Amadeo Saenz, Jr., P.E., Assistant Executive Director for Engineering Operations

Under the direction of the Executive Director, Mr. Saenz implements and manages the Department's engineering operations policies, programs and operating strategies according to federal and State law and Commission regulations and directives. He also supervises and coordinates engineering operations to ensure efficient and effective management. After earning a bachelor of science degree in civil engineering with honors at The University of Texas at Austin, Mr. Saenz joined the Department in 1978 in the Pharr District as an engineering laboratory assistant. Mr. Saenz served in various positions of increasing responsibility within the Pharr District, and was named district engineer in 1993. Mr. Saenz served as district engineer until appointment to his current position in 2001.

Edward Serna, Assistant Executive Director for Support Operations

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

James M. Bass, Chief Financial Officer

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

John Muñoz, Deputy Director, Finance Division

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

Jose Hernandez, Debt Management Director

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

Bob Jackson, General Counsel

Mr. Jackson assumed the position of General Counsel on September 15, 2006. Under his direction, the Office of General Counsel renders legal advice to the Commission and the Department. He also drafts Department

rules, reviews legislation, serves as counsel at Commission meetings, and presides over public hearings. Mr. Jackson, who joined the Department 21 years ago as a planner in the Management Information, Policy and Research Section, has practiced law for 16 years. He earned his bachelor's degree in Government and Geography in 1980 and his master's degree in Public Affairs in 1985 from the University of Texas at Austin. He earned his Doctor of Jurisprudence from the University of Houston Law School in 1990.

Sunset Review

In 1977, the Legislature enacted the Texas Sunset Act (Chapter 325, Texas Government Code), which provides that virtually all agencies of the State, including the Department, are subject to periodic review by the Legislature and that each agency subject to sunset review will be abolished unless the Legislature specifically determines to continue its existence. The next scheduled review of the Department is during the Texas legislative session in 2009. If the Department is not continued in existence at that time, the Department will cease to exist as of September 1, 2009; however, the Texas Sunset Act provides that the Department will exist until September 1 of the following year (September 1, 2010) in order to conclude its business. In the event the Department is abolished pursuant to the Texas Sunset Act, the Governor is required to designate an appropriate State agency to carry out the Department's covenants contained in the Bonds and in the Resolution.

Other Financing Programs

In recent years, the Commission has begun to implement programs designed to accelerate development and construction of highways through the issuance of debt secured by and payable from the Mobility Fund and through the issuance of the State Highway Fund revenue bonds, obligations and other commitments. In addition, in the past two years, the Commission has begun to implement a policy designed to fund more projects over longer periods of time in order to fund as many projects as possible through its annual \$250 million "Strategic Priority Funds," thereby decreasing the annual cost by extending the period in which a project will be paid. The Commission is using a number of different vehicles to implement this strategy, including pass-through toll agreements and toll equity agreements. (Under previous practice, the Commission utilized its Strategic Priority Funds to develop and construct a relatively small number of projects within a three year time frame.)

Set forth below, is a summary of several of the financing programs and financing alternatives that have been utilized and are available to the Commission (in addition to the Program) to finance, assist in the financing, or otherwise facilitate the development and construction of, highway projects. THE FINANCING PROGRAMS AND THE FUNDING SOURCES DESCRIBED BELOW ARE NOT PART OF THE MOBILITY FUND AND SUCH PROGRAMS DO NOT PROVIDE A SOURCE OF SECURITY FOR OBLIGATIONS OF THE MOBILITY FUND, INCLUDING PARITY DEBT. NEITHER THE MOBILITY FUND, THE DEDICATED REVENUES NOR THE SECURITY ARE PLEDGED TO SECURE PAYMENT OF ANY OBLIGATIONS DESCRIBED UNDER THIS CAPTION.

Texas Turnpike Authority. The "Texas Turnpike Authority Division" (the "TTA") is a division of the Department and is controlled and governed by the Commission. As originally created in 1997, TTA had a separate board of directors, but this board was abolished by the Legislature in 2001, and all duties of the board were given to the Commission. The Commission, using the resources of TTA and the other resources of the Department, has the statutory authority to study, plan, design, construct, finance, operate, and maintain turnpikes in all 254 counties in the State. The projects of TTA are part of the State Highway System. The Commission has the authority to issue turnpike revenue bonds to pay all or a part of the costs of a turnpike project, to enter into comprehensive development agreements for projects, and to acquire right-of-way. In 2002, the Commission issued "Texas Turnpike Authority Central Texas Turnpike System" obligations in the principal amount of \$2,199,993,781.80 in three separate series, "\$1,149,993,781.80 First Tier Revenue Bonds, Series 2002-A," "\$150,000,000 First Tier Revenue Bonds, Series 2002-B (Weekly Rate Demand Bonds)," and "\$900,000,000 Second Tier Bond Anticipation Notes, Series 2002." Bonds issued by the Commission under the TTA are not part of the Program and are not secured by the Security.

State Highway Fund - Revenue Bonds. The Texas Constitution (Article III, Section 49-n) and the Texas Transportation Code (Section 222.003) were amended in 2003 to authorize the Commission to issue bonds and other public securities and enter into credit agreements related thereto (collectively, "State Highway Fund Revenue Obligations") secured by a pledge of and payable from revenue deposited to the credit of the State Highway Fund ("State Highway Fund") to fund improvements to the State Highway System. The maximum aggregate principal

amount of State Highway Fund Revenue Obligations authorized to be issued pursuant to Section 222.003 is \$3 billion, and \$600 million of such authorized amount must be used to fund projects that reduce accidents or correct or improve hazardous locations on the State Highway System. The Commission cannot issue State Highway Fund Revenue Obligations in an aggregate principal amount greater than \$1 billion per year, and the proceeds of State Highway Fund Revenue Obligations cannot be used for the construction of a state highway or other facility on the Trans-Texas Corridor. State Highway Fund Revenue Obligations may not have a principal amount or terms that, at the time State Highway Fund Revenue Obligations are issued, are expected by the Commission to cause annual expenditures with respect to State Highway Fund Revenue Obligations to exceed 10% of the amount deposited to the credit of the State Highway Fund in the immediately preceding year. State Highway Fund Revenue Obligations must mature not later than 20 years after their date of issuance, subject to any refundings or renewals.

On May 3, 2006, the Commission delivered its first series of State Highway Fund Revenue Obligations, designated as State Highway Fund First Tier Revenue Bonds, Series 2006, in the aggregate principal amount of \$600 million. On November 8, 2006, the Commission issued a second series of State Highway Fund Revenue Obligations, designated as State Highway Fund First Tier Revenue Bonds, Series 2006-B (Variable Rate Bonds), in the aggregate principal amount of \$100 million. On November 21, 2006, the Commission issued a third series of State Highway Fund Revenue Obligations, designated as State Highway Fund First Tier Revenue Bonds, Series 2006-A, in the aggregate principal amount of \$852,550,000. State Highway Fund Revenue Obligations are not part of the Program and are not secured by the Security.

State Highway Fund - Short-Term Borrowings. The Texas Constitution (Article III, Section 49-m) and the Texas Transportation Code (Section 201.115) were amended in 2003 to provide that the Commission may 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 the average monthly revenue deposited to the State Highway 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 State Highway Fund for that purpose.

The Commission has established a commercial paper program pursuant to Section 201.115 in 2005 in the maximum authorized amount of \$500 million. The Department intends to utilize the commercial paper program to facilitate efficient cash management operations in the State Highway Fund in response to fluctuations in the cash balance of the State Highway Fund as a result of the cyclical nature and uncertain timing of deposits into and payments out of the State Highway Fund. As of November 30, 2006, \$83,850,000 of commercial paper notes are outstanding. Obligations incurred pursuant to Section 201.115 are not part of the Program and will not be secured by the Security.

State Highway Fund - Highway Tax and Revenue Anticipation Notes. The Texas Transportation Code (Sections 201.961, et seq.) was amended in 2003 to provide that the Commission may issue highway tax and revenue anticipation notes ("HTRANS") if the Commission anticipates a temporary cash flow shortfall in the State Highway Fund during any Fiscal Year. The HTRANS are subject to the approval of the Cash Management Committee (consisting of the Governor, the Lieutenant Governor, the Speaker of the House, and the Comptroller), which also approves cash flow borrowings of the State. Prior to issuing HTRANS, the Commission must submit to the Cash Management Committee a State Highway Fund cash flow shortfall forecast detailing the estimated revenues and expenditures of the State Highway Fund. The amount of HTRANS issued may not exceed the maximum cash flow shortfall forecast. In addition, HTRANS must mature during the fiscal biennium in which they are issued, and HTRANS proceeds must be placed in a special fund in the State treasury and transferred as necessary to the State Highway Fund to pay authorized expenditures. HTRANS and related credit agreements are payable from amounts on deposit in the State Highway Fund. The Commission does not expect to issue HTRANS in 2006. If and when HTRANS are issued by the Commission, such HTRANS would not be part of the Program and would not be secured by the Security.

State Highway Fund - Other Obligations and Commitments. In addition to the State Highway Fund financing programs described above, there are a number of obligations and commitments that the Commission and the Department have incurred and expect to incur in the future and that are to be paid or are expected to be paid from the State Highway Fund. Some of these long-term obligations and commitments are described below.

- *Toll Equity Obligations.* Pursuant to Sections 222.101 and 222.103, Texas Transportation Code, as amended, the Department may participate by spending money from any available source, including the State Highway Fund, in the cost of the acquisition, construction, maintenance or operation of a toll facility of a public or private entity on terms and conditions established by the Commission. The Commission may require the repayment of any money spent by the Department for the cost of a toll facility of a public entity and shall require the repayment of any money spent by the Department for the cost of a toll facility of a private entity. Under current law, money granted by the Department each fiscal year may not exceed an amount that, together with amounts granted for the preceding four fiscal years, results in an average annual expenditure of \$2 billion. This limitation does not apply to money that is required to be repaid. The Department currently has toll equity commitments for three types of projects: (i) Department projects with outstanding debt in which the Commission has covenanted to provide toll equity; (ii) Department projects with no outstanding debt; and (iii) projects of other public entities in which the commitment is by an agreement with such entity. All toll equity obligations are subject to the appropriation of lawfully available funds to make such payments. It is currently anticipated that all toll equity commitments will be paid from the State Highway Fund.

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

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

State Infrastructure Bank. Under Subchapter D of Chapter 222, Texas Transportation Code, the Commission may issue revenue bonds for the purpose of providing money for the "State Infrastructure Bank." Such revenue bonds are special obligations of the Commission payable only from income and receipts of the State Infrastructure Bank and do not constitute a debt of the State or a pledge of the faith and credit of the State. Obligations issued by the Commission for the State Infrastructure Bank are not part of the Program and will not be secured by the Security. No State Infrastructure Bank Revenue Obligations have been issued to-date.

Trans-Texas Corridor Project. The Trans-Texas Corridor is a proposed Statewide network of transportation routes, each of which will feature separate lanes for trucks and passenger vehicles, high-speed passenger rail, commuter and freight rail, and public utility lines. Proposed routes include: (i) a route paralleling I-35 from the Texas-Oklahoma border to the Texas-Mexico border ("TTC-35") and (ii) a 600-mile multi-use transportation corridor extending from Northeast Texas to Mexico ("TTC-69"). In December 2004, the Commission selected Cintra-Zachry as the Commission's first private-sector partner with respect to the TTC-35 segment of the Trans-Texas Corridor. On September 28, 2006, the Department released a plan proposing that the first phase of TTC-35 include a connection to I-35 south of San Antonio and a loop for the Dallas-Fort Worth area. The plan indicates that construction could begin by 2011, pending final environmental clearance and public input to determine the ultimate alignment of TTC-35. The Department has indicated that Federal Highway Administration approval of a final alignment for TTC-35 may take four years. On April 10, 2006, the Commission issued a request for qualifications to initiate the process for selection of a private entity to develop, finance, design, construct, operate and maintain TTC-69. Pursuant to Chapter 227, Texas Transportation Code, the Commission may use a variety of sources,

including proceeds of obligations secured by revenues in the Fund in funding part of the costs of the acquisition of property for, construction, and operation of, the Trans-Texas Corridor. Proceeds of the Bonds may be used for projects within the Trans-Texas Corridor, if such projects have been approved by the Commission as Mobility Projects that are part of the Strategic Plan.

Private Activity Bonds. The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (“SAFETEA-LU”), amended Section 142 of the Internal Revenue Code to permit the use of up to \$15 billion of tax-exempt private activity bonds (“PABs”) to finance facilities for qualified highway or surface freight transfer projects. As a result of the enactment of such legislation, Section 222.035, Texas Transportation Code, directs the Department to establish and administer a program for PABs issued for highway facilities or surface freight transfer facilities in the State. Such program must include a process by which the Department and the Bond Review Board receive and evaluate applications for the issuance of PABs for highway facilities or surface freight transfer facilities. The Department must adopt rules to administer the program established under Section 222.035, Texas Transportation Code.

SAFETEA-LU authorized the United States Secretary of Transportation to allocate the \$15 billion of PABs among qualified highway or surface freight facilities; and, pursuant to a notice issued on January 5, 2006 by the United States Department of Transportation (“USDOT”), applications were solicited for allocations from the \$15 billion of PABs authorized. In February 2006, the Commission authorized the Department to apply for allocations from the \$15 billion of PABs authorized and indicated its intention to issue (or authorize related entities to issue) PABs for the purpose of financing authorized transportation projects, including projects under comprehensive development agreements with private entities pursuant to Subchapter E of Chapter 223, Texas Transportation Code. In October 2006, the Department received approval to use \$1.86 billion of PABs to finance transportation facilities in the Dallas area to accelerate the development of State Highway 121. Such PABs are expected to be issued by a separate conduit corporation acting on behalf of the Commission, subject to final approval by the USDOT, and the proceeds thereof are expected to be available for use by private entities proposing to partner with the Department in the design and construction of the State Highway 121 project. The private entity responsible for the design and construction of the project would be obligated to pay debt service associated with such PABs and such bonds would not be a debt of the Commission or the Department.

LEGAL MATTERS

Legal Opinions

The Commission will compile complete transcripts of proceedings incident to the authorization and issuance of the Bonds, including the approving opinion 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 transcripts of proceedings, the legal opinion to like effect of McCall, Parkhurst & Horton L.L.P, Bond Counsel. In its capacity as Bond Counsel, such firm has reviewed the information under the captions and subcaptions “DESCRIPTION OF THE BONDS” (except for the information under the subheadings “The Initial Liquidity Facility” and “The Initial Liquidity Facility Issuer”), “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” (except for the information under the headings “–Detailed Information on Dedicated Revenues – Major Sources,” “– Miscellaneous Sources,” “– Mobility Fund Financial Statements,” “– Mobility Fund Revenue Forecast,” including Tables 1 through 5, and the subcaption “–Investment of Funds,” as to which no opinion will be expressed), “FUND ADMINISTRATION, INVESTMENT AND CUSTODY,” “LEGAL MATTERS – Legal Opinions,” “LEGAL MATTERS – Eligibility for Investment in Texas,” “LEGAL MATTERS – Registration and Qualification of Bonds for Sale,” “TAX MATTERS,” “CONTINUING DISCLOSURE OF INFORMATION,” APPENDIX B, and APPENDIX C and such firm is of the opinion that such information relating to the Bonds and the Resolution is a fair and accurate summary of the information purported to be shown. In connection with the transactions described herein, Bond Counsel and Andrews Kurth LLP, Disclosure Counsel, represent only the Commission. A portion of the legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery thereof. The legal opinion of Bond Counsel in the form set forth in APPENDIX C will accompany the Bonds deposited with DTC. Certain legal matters will be passed upon for the Commission by Disclosure Counsel and the General Counsel of the Commission. Certain legal matters will be passed upon for the Underwriter by its counsel, Delgado, Acosta, Braden & Jones, P.C. Certain legal matters will be passed upon for the Initial Liquidity Facility Issuer by its counsel, Winston & Strawn LLP (for State Street) and Preston, Gates & Ellis, LLP (for CalPERS).

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 legal opinions, attorneys do not become insurers or guarantors of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of opinions guarantee the outcome of any legal dispute that may arise out of the transaction.

No Litigation Certificate

There is no litigation, proceeding, inquiry, or investigation pending by or before any court or other governmental authority or entity (or, to the best knowledge of the Commission, threatened) that affects the obligation of the Commission to deliver the Bonds, the validity of the Bonds, or the pledge of the Pledged Revenues.

The State is a party to various legal proceedings relating to its operation and government functions, but unrelated to the Bonds or the Security for the Bonds. In the opinion of the State Comptroller of Public Accounts, based on information provided by the State Attorney General as to the existence and legal status of such proceedings, none of such proceedings, except for those disclosed in APPENDIX A, if finally decided adversely to the State, would have a materially adverse effect on the long term financial condition of the State. See "APPENDIX A – The State." At the time of payment for and delivery of the Bonds, the Department will render an opinion to the effect that there is no litigation, proceeding, inquiry, or investigation pending by or before any court or other governmental authority or entity (or, to the best of his knowledge threatened) against or affecting the State or any of its agencies or instrumentalities (nor to the best of his knowledge is there any basis therefor) that (i) affects the existence of the Department or the Commission or the right of the present directors and officers of the Commission or 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 the power of the Department or the Commission to issue the Bonds.

Eligibility for Investment in Texas

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments 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.

Registration and Qualification of Bonds for Sale

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

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (i) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (ii) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Code. Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See "APPENDIX C -- FORM OF OPINION OF BOND COUNSEL."

In rendering its opinion, Bond Counsel will rely upon (i) certain information and representations of the Commission, including information and representations contained in the Commission's federal tax certificate, and (ii) covenants of the Commission contained in the Bonds and other documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the Commission to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the Commission with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership, or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the Commission with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Commission as the taxpayer and the Owners may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive interest income, foreign corporations subject to the branch profits tax, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds will be includable as an adjustment for “adjusted current earnings” to calculate the alternative minimum tax imposed on corporations by section 55 of the Code. Section 55 of the Code imposes a tax equal to 20% for corporations, or 26% for noncorporate taxpayers (28% for taxable income exceeding \$175,000), of the taxpayer’s “alternative minimum taxable income,” if the amount of such alternative minimum tax is greater than the taxpayer’s regular income tax for the taxable year.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a “market discount” and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to “market discount bonds” to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the “revised issue price” (i.e., the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local, and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

GENERAL INFORMATION REGARDING THE STATE

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 Bond Appendix is dated November 2006 and is incorporated herein as described in “APPENDIX A – The State.” See “CONTINUING DISCLOSURE OF INFORMATION – Continuing Disclosure Undertaking of the Comptroller – General.” With respect to evaluating the ability of the State to make timely payment of debt service on the Bonds based on the information contained in the Bond Appendix, no representation is made that such information contains all factors material to such an evaluation or that any specific information should be accorded any particular significance.

The Texas 2005 Comprehensive Annual Financial Report for the year ended August 31, 2005 (the “2005 CAFR”) is currently on file with each nationally recognized municipal securities information repository (“NRMSIR”) and the State Information Depository (the “SID”). The 2005 CAFR is incorporated by reference and made a part of this Official Statement as if set forth herein. The 2005 CAFR may be found at www.window.state.tx.us/fm/pubs/cafr.

Article III, Section 49-j of the Texas Constitution prohibits the Legislature from authorizing additional State debt payable from general revenues, including authorized but unissued bonds and lease purchase contracts in excess of \$250,000, if the resulting annual debt service exceeds 5% of an amount equal to the average amount of general revenue for the three immediately preceding years, excluding revenues constitutionally dedicated for purposes other than payment of debt service. See “APPENDIX A – The State” and “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – General Obligation Pledge.”

NO CONTINUING DISCLOSURE OF INFORMATION

The Bonds are exempt from the continuing disclosure provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. §240.15c2-12 under Section (d)(1) thereof, and the Commission has not undertaken to provide any continuing disclosure of information in connection with the issuance of the Bonds.

OTHER INFORMATION

Ratings

Fitch Ratings and Moody's Investors Service, Inc. have assigned ratings of "AA+/F1+" and "Aa1/VMIG1," respectively, to the Bonds. 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, or either of them, may have an adverse effect on the market price of the Bonds.

Underwriting

Goldman, Sachs & Co. has agreed, subject to certain conditions, to purchase the Bonds from the Commission. The purchase price of the Bonds is \$149,808,788.01 (which represents the par amount of the Bonds less an underwriting discount of \$191,211.99). The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of the Bonds and such public offering prices may be changed, from time to time, by the Underwriter.

Forward-Looking Statements

The statements contained in this Official Statement, and in any other information provided to the reader by the Commission and the Comptroller that are not purely historical, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the Commission's and the Comptroller'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 and the Comptroller on the date hereof, and the Commission and the Comptroller assume no obligation to update any such forward-looking statements. It is important to note that the Commission's and the Comptroller's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently 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, and 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 to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Commission and the Comptroller. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

Certification of Official Statement

The financial and other information contained herein have been obtained from the Commission's records and other sources which are deemed reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents, and the Resolution contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Resolution. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

At the time of payment for and delivery of the Bonds, the Commission will be furnished a letter from the State, signed on behalf of the State by the Comptroller, upon which the Underwriter will be authorized to rely, to the effect that (i) the statements and data appearing in the financial information referred to in APPENDIX A hereto did not and do not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary to make the statements herein not misleading and have been obtained from sources which she believes to be reliable and (ii) the Comptroller has agreed to provide continuing disclosure for the benefit of the

Commission and the legal and beneficial owners of the Bonds, to provide, with respect to the State, updated financial information and operating data of the type referred to in APPENDIX A hereto and timely notice of certain material events.

Financial Advisor

RBC Capital Markets is serving as the Financial Advisor to the Commission (the “Financial Advisor”) in connection with the issuance of the Bonds. RBC Capital Markets is the name under which RBC Dain Rauscher Inc., a broker-dealer, conducts investment banking business. 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.

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APPENDIX A

THE STATE

Appendix A dated November 2006 is currently on file with each NRMSIR and the Texas SID and is hereby incorporated by reference and made a part of this Official Statement. Such Appendix A may also be obtained from the Comptroller's web site at www.cpa.state.tx.us/treasops/bondapp.html until the Comptroller posts an updated version of such Appendix A.

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APPENDIX B

SELECT PROVISIONS OF THE RESOLUTION

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.

Select Definitions in the Master Resolution and the Fifth Supplemental Resolution

“Alternate Liquidity Facility” means a Credit Agreement issued pursuant to Section 7.01 of the Fifth Supplemental Resolution to provide liquidity support for the Series 2006-B Bonds.

“Alternate Rate” means, as of any Rate Determination Date, for any Mode, a rate per annum equal to 110% of (a) the BMA Municipal Swap Index of Municipal Market Date, formerly the PSA Municipal Swap Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions) (the “BMA Rate”) most recently available as of the date of determination, or (b) if such index is no longer available, or if the BMA Rate is no longer published, the Kenny Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions), or if neither the BMA Rate nor the Kenny Index is published, the index determined to equal the prevailing rate determined by the Remarketing Agent for tax-exempt state and local government bonds meetings criteria determined in good faith by the Remarketing Agent to be comparable under the circumstances to the criteria used by the Bond Market Association to determine the BMA Rate just prior to when the Bond Market Association stopped publishing the BMA Rate. The Tender Agent shall make the determinations required by this determination, upon notification from the Commission, if there is no Remarketing Agent, if the Remarketing Agent fails to make any such determination or if the Remarketing Agent has suspended its remarketing efforts in accordance with the Remarketing Agreement.

“Annual Debt Service Requirements” means, for any Fiscal Year, (i) the principal of, premium, if any, and interest on all Parity Debt coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the Commission on such Parity Debt, or be payable in respect of any required purchase of such Parity Debt by the Commission) plus (ii) all payments required to be made by the Commission under each Credit Agreement constituting Parity Debt (net of any credits as provided in (7) below) in such Fiscal Year, and minus (iii) all amounts on deposit to the credit of the Interest and Sinking Account from original proceeds from the sale of Parity Debt or from any other lawfully available source (other than moneys that would constitute Pledged Revenues in the subject annual period) and, for such purposes, any one or more of the following rules shall apply at the election of the Commission; 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 Parity Debt:

(1) Committed Take Out. If the Commission has entered into a Credit Agreement constituting Parity Debt 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 Funded Debt at its Stated Maturity (or, if due on demand, at any date on which demand may be made) or to purchase any of its Funded Debt 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 Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased shall be excluded from such calculation and the principal of and interest on the Funded Debt 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 or purchase date of the Funded Debt to be discharged or purchased, shall be added to such calculation, and the remaining provisions of this definition shall be applied to such added Funded Debt;

(2) Balloon Debt. 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 Funded Debt due (or payable in respect of any required purchase of such Funded Debt by the Commission) in any Fiscal Year either is

equal to at least 25% of the total Principal of such Funded Debt or exceeds by more than 50% the greatest amount of Principal of such series or issue of Funded Debt due in any preceding or succeeding Fiscal Year (such Principal due in such Fiscal Year for such series or issue of Funded Debt being referred to herein as "Balloon Debt"), the amount of Principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the Principal of such Balloon Debt 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 Debt on the date of calculation;

(3) Consent Sinking Fund. In the case of Balloon Debt (as defined in clause (2) above), if an Authorized Representative shall deliver to the Commission an Officer's Certificate providing for the retirement of (and the instrument creating such Balloon Debt shall permit the retirement of), or for the accumulation of a sinking fund for (and the instrument creating such Balloon Debt shall permit the accumulation of a sinking fund for), such Balloon Debt 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 Debt shall be computed as if the same were due in accordance with such schedule, provided that this clause (3) shall apply only to Balloon Debt for which the installments previously scheduled have been paid or deposited to the sinking fund established with respect to such debt 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 Debt. Principal of, premium, if any, and interest on Parity Debt, 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 Parity Debt;

(5) Variable Rate. As to any Parity Debt that bears interest at a variable interest rate which cannot be ascertained at the time of calculation of the Annual Debt Service Requirement, at the election of the Commission, the interest rate for such Parity Debt shall be determined to be either (i) an interest rate equal to the average rate borne by such Parity Debt (or by comparable debt in the event that such Parity Debt has not been outstanding during the preceding 24 months) for any 24 month period ending within 30 days prior to the date of calculation, (ii) if the Parity Debt bears interest at tax-exempt rates, an interest rate equal to the 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 determines most closely replicates such index as set forth in a certificate of an Authorized Representative, (iii) if the Parity Debt bears interest at taxable rates, an interest rate equal to the rate of the 30 day London Interbank Offered Rate, or (iv) that interest rate which, in the judgment of the Chief Financial Officer, based, to the extent possible, upon an accepted market index which corresponds with the provisions of the subject Parity Debt, is the average rate anticipated to be in effect with respect to such Parity Debt or (v) that interest rate which, in the judgment of the Chief Financial Officer, based upon the interest rate methodology in the applicable Credit Agreement if calculating payments under a Credit Agreement in accordance with paragraph 7 of this definition, is the average rate anticipated to be in effect;

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

(7) Credit Agreement Payments. If the Commission has entered into a Credit Agreement in connection with an issue of Parity Debt, payments due under any such Credit Agreement (other than payments for fees and expenses) from either the Commission or the provider of a Credit Agreement shall be included in such calculation, except to the extent that the payments are already taken into account under clauses (1) through (6) above and any

payments otherwise included under clauses (1) through (6) above which are to be replaced by payments under such a Credit Agreement, from either the Commission or the provider under a Credit Agreement, shall be excluded from such calculation.

“Authorized Denominations” means with respect to Series 2006-B Bonds (i) in an Auction Rate Mode, \$25,000 and any integral multiple thereof, (ii) in a Commercial Paper Mode, Initial Mode, Daily Mode or Weekly Mode, \$100,000 and any integral multiple of \$5,000 in excess thereof, and (iii) in a Term Rate Mode or Fixed Rate Mode, \$5,000 and any integral multiple thereof, provided, however, that if as a result of the change in the Mode of the Series 2006-B Bonds from a Term Rate Mode to a Commercial Paper Mode, Daily Mode or Weekly Mode, it is not possible to deliver all the Series 2006-B Bonds required or permitted to be Outstanding in a denomination permitted above, the Series 2006-B Bonds may be delivered, to the extent necessary, in different denominations.

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

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

“Conversion Date” means the date on which a series of the Series 2006-B Bonds convert from one interest rate period to another interest rate period.

“Debt” means all indebtedness of the Commission payable from the Security that is also:

(1) indebtedness incurred or assumed by the Commission for borrowed money (including all obligations arising under Credit Agreements) and all other financial obligations of the Commission that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet;

(2) all other indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations that is guaranteed, directly or indirectly, in any manner by the Commission, or that is in effect guaranteed, directly or indirectly, by the Commission through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise; and

(3) all indebtedness secured by any mortgage, lien, charge, encumbrance, pledge, or other security interest upon property owned by the Commission whether or not the Commission has assumed or become liable for the payment thereof.

For the purpose of determining the “Debt” of the Commission, only outstanding Debt shall be included. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the Department in prior Fiscal Years.

“Dedicated Revenues” means (i) from the periods and to the extent set forth below, the moneys generated from the below listed sources, each of which has been dedicated by the State legislature to the Mobility Fund pursuant to the Constitutional Provision and other State law; (ii) all moneys hereafter dedicated to the Mobility Fund by the Legislature; (iii) any other moneys substituted pursuant to the Constitutional Provision and Section 2(d) of this Master Resolution; and (iv) all amounts in the Mobility Fund attributable to such moneys, including investment income, as follows:

(1) The "United We Stand" specialty license plate fees provided for in Section 504.628 of the Texas Transportation Code;

(2) Beginning September 1, 2008, \$15 of the certificate of title fees provided for in Section 501.138 of the Texas Transportation Code;

(3) 67% of the state traffic fines received by the Comptroller for Fiscal Years 2004 and 2005 as provided for in Section 542.4031 of the Texas Transportation Code and beginning September 1, 2005 to the extent amounts of the dedicated portion of such fines combined with 49.5% of the annual surcharges as provided for in Section 708.053 of the Texas Transportation Code and Section 780.002 of the Texas Health and Safety Code exceeds \$250 million in any Fiscal Year;

(4) 49.5% of the collected annual surcharge for Fiscal Years 2004 and 2005 as provided for in Section 708.053 of the Texas Transportation Code and Section 780.002 of the Texas Health and Safety Code and beginning September 1, 2005 to the extent amounts of the dedicated portion of such surcharge combined with 67% of the State traffic fines as provided for in Section 542.4031 of the Texas Transportation Code exceeds \$250 million in any Fiscal Year;

(5) Beginning September 1, 2006, the license record fees provided for in Subchapter C of Chapter 521 of the Texas Transportation Code;

(6) Beginning September 1, 2007, the license reinstatement and reissuance fees provided for in Section 521.313 of the Texas Transportation Code;

(7) Beginning September 1, 2007, the license reinstatement and reissuance fees after conviction related to certain fraudulent records provided for in Section 521.3466 of the Texas Transportation Code;

(8) Beginning September 1, 2007, the license and certificate fees provided for in Subchapter R of Chapter 521 of the Texas Transportation Code;

(9) Beginning September 1, 2007, the commercial driver's license or commercial driver learner's permit fees provided for in Section 522.029 of the Texas Transportation Code;

(10) Beginning September 1, 2007, the license reinstatement and reissuance fees after administrative suspension of driver's license for failure to pass test for intoxication provided for in Section 524.051 of the Texas Transportation Code;

(11) Beginning September 1, 2005, the inspection and certification fees provided for in Subchapter H of Chapter 548 of the Texas Transportation Code;

(12) Beginning September 1, 2005, an administrative penalty imposed under Section 644.153 of the Texas Transportation Code;

(13) Beginning September 1, 2007, the reinstatement of license or issuance of new license fees provided for in Section 724.046 of the Texas Transportation Code; and

(14) To the extent permitted under Chapter 370, Texas Transportation Code, any surplus revenue of a regional mobility authority for any given year that such surplus is allocated to the Mobility Fund.

"Department Representative" means an Authorized Representative or a Chief Financial Officer of the Department.

"Expiration Date" means the scheduled expiration date of the Liquidity Facility, as such date may be extended from time to time as provided therein, or the date on which such Liquidity Facility shall terminate pursuant to an election to terminate by the Commission. The term "Expiration Date" shall not mean any date upon which

such Liquidity Facility is no longer effective by reason of its Termination Date, the date on which all Series 2006-B Bonds are converted to a Daily Mode, a Weekly Mode, a Commercial Paper Mode or a Term Rate Mode or the expiration of such Liquidity Facility by reason of the obtaining of an Alternate Liquidity Facility.

"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 Mode" means the period commencing from the Issuance Date through but not including September 5, 2007.

"Initial Rate" means the initial interest rate the Series 2006-B Bonds shall bear during the Initial Mode as set forth in the Award Certificate.

"Interest Payment Date" means the following dates upon which interest is payable on the Series 2006-B Bonds:

- (i) any Principal Payment Date or Mode Change Date;
- (ii) with respect to a Commercial Paper Rate Bond, the Business Day following the last day of the Interest Period therefor;
- (iii) with respect to the Daily Mode and the Weekly Mode, the first Business Day of each calendar month;
- (iv) with respect to the Term Rate Mode, each April 1 and October 1 prior to the Purchase Date and the Purchase Date;
- (v) with respect to the Auction Rate Mode, each date that is specified as an "Interest Payment Date" in Exhibit D hereto;
- (vi) with respect to the Fixed Rate Mode, each April 1 and October 1, provided that the Interest Payment Dates for the Fixed Rate Mode may be changed in connection with the conversion to such Mode upon receipt of a Favorable Opinion of Bond Counsel; and
- (vii) with respect to Purchased Bonds, the dates provided in the Liquidity Facility; and
- (viii) with respect to the Initial Mode, April 1, 2007 and September 5, 2007.

"Interest Period" means the period of time that any interest rate remains in effect, which period:

- (i) with respect to a Commercial Paper Rate Bond, shall be the period established by the Remarketing Agent pursuant to Section 4.01 hereof;
- (ii) with respect to Series 2006-B Bonds in the Daily Mode, shall be the period from and including a Business Day to but excluding the next Business Day;
- (iii) with respect to Series 2006-B Bonds in the Weekly Mode, shall be the periods from and including the Issuance Date (if initially issued in the Weekly Mode) or the Mode Change Date that they began to bear interest at the Weekly Rate to and including the following Tuesday, and thereafter, commencing on each Wednesday to and including Tuesday of the following week;
- (iv) with respect to Series 2006-B Bonds in the Term Rate Mode, the period from the Mode Change Date to and including the last day upon which an interest rate determined by the Remarketing Agent pursuant to Section 4.04 hereof shall be in effect, and thereafter, shall be the period beginning on the day after the end of the prior Interest Period and ending on the last day upon which the interest rate determined by the Remarketing Agent

pursuant to Section 4.04 hereof shall be in effect; provided, that no Interest Period shall extend beyond the day preceding any Mandatory Purchase Date or the Maturity Date; and, provided further, that such Interest Period shall be at least six (6) months or a multiple of six (6) months;

(v) with respect to Series 2006-B Bonds in the Fixed Rate Mode, the period from and including the Mode Change Date to and including the earlier of the Maturity Date or the date such Series 2006-B Bonds are redeemed or purchased in lieu thereof; and

(vi) with respect to the Series 2006-B Bonds in the Initial Mode, the period from and including the Issuance Date through but not including September 5, 2007.

"Liquidity Amount" means at any time and with respect to: (i) Commercial Paper Rate Bonds, an amount equal to the aggregate principal amount thereof then Outstanding plus an interest amount equal to at least 270 days' interest thereon calculated at the Maximum Rate (for Series 2006-B Bonds other than Purchased Bonds) on the basis of a 365-day year for the actual number of days elapsed; (ii) Series 2006-B Bonds bearing interest at the Daily Rate or the Weekly Rate, an amount equal to the aggregate principal amount of the Series 2006-B Bonds then Outstanding plus an interest amount equal to 35 days' interest thereon calculated at the Maximum Rate (for Series 2006-B Bonds other than Purchased Bonds) on the basis of a 365-day year for the actual number of days elapsed; (iii) Series 2006-B Bonds bearing interest at the Term Rate an amount equal to the aggregate principal amount of the Series 2006-B Bonds then Outstanding plus an interest amount equal to 180 days' interest thereon calculated at the Maximum Rate (for Series 2006-B Bonds other than Purchased Bonds) on the basis of a 360-day year composed of twelve 30-day months and (iv) Series 2006-B Bonds bearing interest at the Initial Rate an amount equal to the aggregate principal amount of the Series 2006-B Bonds then Outstanding plus an interest amount equal to 109 days for the April 1, 2007 payment date and 157 days for the September 5, 2007 payment date both calculated at the Initial Rate (for Series 2006-B Bonds other than Purchased Bonds) on the basis of a 365-day year for the actual number of days elapsed.

"Mandatory Purchase Date" means (i) the Purchase Date of Series 2006-B Bonds in the Initial Mode, the Commercial Paper Mode or the Term Rate Mode, (ii) any Mode Change Date, (iii) the Substitution Date, (iv) the Expiration Tender Date and (v) the Termination Tender Date.

"Maturity," when used with respect to the Bonds, means the scheduled maturity.

"Maximum Rate" has the meaning given in the Fifth Supplement.

"Mode Change Date" means the date one Mode terminates and another Mode begins (including the date on which Series 2006-B Bonds are subject to mandatory purchase pursuant to Section 6.04(a) without the right of the holders thereof to elect to continue to hold such Series 2006-B Bonds) but does not include a change in Mode associated with a purchase in lieu of redemption.

"Non-Recourse Debt" means any debt secured by a lien (other than a lien on the Security), liability for which is effectively limited to the property subject to such lien with no recourse, directly or indirectly, to the Security.

"Notice Parties" means the Commission, the Paying Agent, the Remarketing Agent, the Tender Agent, the Rating Agencies, the Auction Agent, all Broker-Dealers and the Liquidity Facility Issuer.

"Outstanding" when used with respect to Parity Debt means, as of the date of determination, all Parity Debt theretofore delivered under this Master Resolution or any Supplement, except:

(1) Parity Debt theretofore cancelled and delivered to the Commission or delivered to the Paying Agent or the Registrar for cancellation;

(2) Parity Debt deemed to be Defeased Debt;

(3) Parity Debt upon transfer of or in exchange for and in lieu of which other Parity Debt has been authenticated and delivered pursuant to this Master Resolution or any Supplement; and

(4) Parity Debt under which the obligations of the Commission have been released, discharged, or extinguished in accordance with the terms thereof;

provided, however, that unless the same is acquired for purposes of cancellation, Parity Debt owned by the Commission and Parity Debt purchased with funds advanced pursuant to a Credit Agreement shall be deemed to be Outstanding as though it was owned by any other owner.

“Outstanding Parity Debt” - The following previously issued and outstanding obligations: “Texas Transportation Commission State of Texas General Obligation Mobility Fund Bonds, Series 2005-A,” “Texas Transportation Commission State of Texas General Obligation Mobility Fund Bonds, Series 2005-B (Variable Rate Bonds)”, the reimbursement obligations under the Liquidity Facility related to the Series 2005-B Bonds. “Texas Transportation Commission State of Texas General Obligation Mobility Fund Bonds, Series 2006” and “Texas Transportation Commission State of Texas General Obligation Mobility Fund Bonds, Series 2006-A.”

“Outstanding Principal Amount” means, as of any record date established by a Registrar in connection with a proposed amendment of this Master Resolution or any Supplement, with respect to all Parity Debt or to a series of Parity Debt that is in the form of bonds, notes, or other similar instruments that have a stated principal amount, the outstanding and unpaid principal amount of such Parity Debt on which interest is paid on a current basis and the outstanding and unpaid principal and compounded interest on such Parity Debt paying accrued, accreted, or compounded interest only at maturity and, with respect to Credit Agreements shall total the amount, if any, then due under such Credit Agreement if it was to be terminated as of the date of calculation of Outstanding Principal Amount.

“Parity Debt” means all Debt of the Commission which may be issued or assumed in accordance with the terms of this Master Resolution and a Supplement, secured by a first lien on and pledge of the Security.

“Pledged Revenues” means (i) all Dedicated Revenues, (ii) all Repayments included in Pledged Revenues pursuant to a Supplement, (iii) all other amounts received by the Commission under any Collateral Documents, (iv) all Sale Proceeds, and (v) all amounts received by the Commission as income, profits, or gain on investments of money held in the Mobility Fund; provided, however, amounts in the Bond Proceeds Account and any other accounts or subaccounts so excluded pursuant to any Supplement shall not constitute Pledged Revenues.

“Prepayments” means all amounts received by the Commission from payment of principal of Transportation Assistance Bonds held in the Portfolio Account, which amounts are received prior to the stated maturity date or dates or the scheduled mandatory redemption dates of such Transportation Assistance Bonds.

“Purchase Date” means with respect to any Series 2006-B Bond (i) in the Commercial Paper Mode, the Term Rate Mode or the Fixed Rate Mode (for Series 2006-B Bonds in a Fixed Rate Mode that are purchased in the manner described in Section 6.04(b) hereof), the Business Day after the last day of the Interest Period applicable thereto, (ii) during the Daily Mode or Weekly Mode, any Business Day upon which such Series 2006-B Bond is tendered or deemed tendered for purchase pursuant to Section 6.01 of the Fifth Supplemental Resolution and (iii) in the Initial Mode, September 5, 2007.

“Purchase Fund” means the fund that may be established pursuant to Section 6.07 of the Fifth Supplemental Resolution.

“Purchase Price” means, with respect to any Series 2006-B Bonds, 100% of the principal amount thereof plus accrued interest, if any, to and including the date of such purchase, provided however, that if the purchase is made on an Interest Payment Date, the Purchase Price shall not include accrued but unpaid interest, and provided further, however, that the Purchase Price shall not include premium in the case of Series 2006-B Bonds subject to mandatory tender for purchase on a date when such Series 2006-B Bonds are also subject to optional redemption at a premium.

“Purchased Bond Rate” means for any date, the interest rate applicable to Purchased Bonds on such date as described in Section 3.03(c) of the Fifth Supplemental Resolution, and as provided for in the Liquidity Facility.

“Purchased Bonds” means Series 2006-B Bonds that are purchased on a Purchase Date or Mandatory Purchase Date with immediately available funds transferred to the Tender Agent from amounts available under the Liquidity Facility pursuant to Section 6.09(b) of the Fifth Supplemental Resolution.

“Rate Determination Date” means any date on which the interest rate on any Series 2006-B Bonds is required to be determined, being: (i) in the case of any Commercial Paper Rate Bond, the first day of each Interest Period; (ii) in the case of Series 2006-B Bonds in the Daily Mode, each Business Day; (iii) in the case of Series 2006-B Bonds in the Weekly Mode, for any Interest Period commencing on any Mode Change Date, the Business Day immediately preceding the respective Mode Change Date, and for other Interest Periods thereafter, each Tuesday or, if such Tuesday is not a Business Day, the Business Day next succeeding such Tuesday; and (iv) in the case of Series 2006-B Bonds to be, or continue to be, in the Term Rate Mode or Fixed Rate Mode, a Business Day prior to the first day of an Interest Period.

“Record Date” means, with respect to Series 2006-B Bonds (i) in a Commercial Paper Mode, the day (whether or not a Business Day) next preceding each Interest Payment Date, (ii) in the Initial Mode, the Auction Rate Mode, the Daily Mode or the Weekly Mode, the Business Day next preceding an Interest Payment Date and (iii) in the Term Rate Mode or the Fixed Rate Mode, the 15th day (whether or not a Business Day) of the calendar month next preceding each Interest Payment Date.

“Repayments” means all amounts received by the Commission from the payment of principal of and premium, if any, and interest on Transportation Assistance Bonds held in the Portfolio Account, including, without limitation, all Prepayments.

“Sale Proceeds” means the gross proceeds (other than accrued interest) resulting from the sale of Transportation Assistance Bonds held in the Portfolio Account.

“Security Register” means the books and records kept and maintained by the Paying Agent/Registrar relating to the registration, transfer, exchange, and payment of the Bonds and the interest thereon.

“Short-Term Obligations” means an issue or series of Parity Debt the latest scheduled maturity of which is five years or less.

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

“Subordinated Debt” means any Debt which expressly provides that all payments thereon shall be subordinated to the timely payment of all Parity Debt then outstanding or subsequently issued.

“Substitution Date” means the date on which an Alternate Liquidity Facility is to be substituted for a then-existing Liquidity Facility in effect pursuant to Section 7.01 of the Fifth Supplemental Resolution.

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

“Termination Date” means with respect to a Liquidity Facility, both (i) the date on which such Liquidity Facility shall terminate pursuant to its terms or otherwise be terminated prior to its Expiration Date and (ii) the date on which the obligation of the Liquidity Facility Issuer to purchase Series 2006-B Bonds shall terminate; provided, however, that the “Termination Date” shall not mean the date on which such Liquidity Facility shall terminate

pursuant to an election to terminate by the Commission or the date on which any automatic termination or suspension thereof occurs without notice, in accordance with the terms of the Liquidity Facility.

“Texas Transportation Commission Mobility Fund Revenue Financing Program” or “Financing Program” means the Texas Transportation Commission Mobility Fund Revenue Financing Program established by this Master Resolution.

“Transportation Assistance Bonds” means obligations purchased by the Commission which may or may not be pledged as part of the Security on an individual basis as further described in Section 7 of this Master Resolution.

Select Provisions of the Master Resolution

Section 1. ESTABLISHMENT OF FINANCING PROGRAM AND ISSUANCE OF PARITY DEBT. As authorized by the Constitutional Provision, the Enabling Act, and other applicable provisions of State law, the Texas Mobility Fund Revenue Financing Program is hereby established for the purpose of providing a financing structure for the issuance of Debt by the Commission secured by and payable from a pledge of and lien on all or part of the moneys in the Mobility Fund. This Master Resolution is intended to establish a master financing program under which Parity Debt of the Financing Program can be incurred. The Financing Program is initially established in the aggregate principal amount outstanding at any time of not to exceed \$4 billion, subject to the limitations and requirements of the Constitutional Provision, the Enabling Act and other applicable provisions of State law, this Master Resolution, and each Supplement (the “Controlling Provisions”). Each issue or series of Parity Debt shall be issued pursuant to a Supplement and no Parity Debt shall be issued unless the Commission has complied with the Controlling Provisions.

Each Supplement shall provide for the authorization, issuance, sale, delivery, form, characteristics, provisions of payment and redemption, and security of each issue or series of Parity Debt and any other matters related to Parity Debt not inconsistent with the Controlling Provisions.

Section 2. SECURITY AND PLEDGE. (a) Pledge. Parity Debt shall be secured by and payable solely from a first lien on and pledge of the following (collectively, the “Security”): (i) all Pledged Revenues; (ii) all Transportation Assistance Bonds in the Portfolio Account and all amounts in the General Account and the Interest and Sinking Account; (iii) any additional account or subaccount within the Mobility Fund that is subsequently established and so designated as being included within the Security pursuant to Section 3(g) hereof; (iv) all of the proceeds of the foregoing, including, without limitation, investments thereof; (v) any applicable Credit Agreement to the extent set forth in such Credit Agreement and, (vi) any applicable guarantee pursuant to subsection (c) hereof. With respect to any applicable series of Parity Debt, the term “Security” shall also include all amounts in any reserve account or subaccount applicable to such Parity Debt pursuant to Section 3(f) hereof, including any reserve fund surety policy or other Credit Agreement entered into for the benefit of such account or subaccount. The Commission hereby assigns and pledges the Security to the payment of the Annual Debt Service Requirements on Parity Debt including the obligations due under and in connection with any Credit Agreement, to the extent set forth therein and in the related Supplement, and the Security is further pledged to the establishment and maintenance of any accounts or subaccounts within the Mobility Fund which may be provided to secure the repayment of Parity Debt including the obligations due under and in connection with any Credit Agreement, to the extent set forth therein and in the related Supplement, in accordance with this Master Resolution and any Supplement. Pursuant to the Constitutional Provision, the amounts constituting Security are appropriated when received by the State, shall be deposited into the Mobility Fund, and may be used for the purposes provided by State law, including the Constitutional Provision and the Enabling Act.

(b) Credit Agreements. The Commission may execute and deliver one or more Credit Agreements (i) to additionally secure Parity Debt or an issue or series or part of any issue or series of Parity Debt or (ii) in connection with the authorization, issuance, sale, resale, security, exchange, payment, purchase, remarketing, or redemption of

Parity Debt or an issue or series or part of an issue or series of Parity Debt or interest on an issue or series or part of an issue or series of Parity Debt without regard to whether a Credit Agreement was contemplated, authorized or executed in relation to the initial issuance, sale or delivery of Parity Debt. Credit Agreements and the obligations thereunder may, pursuant to their terms, constitute: (i) Parity Debt secured by a pledge of the Security on parity with all Parity Debt (ii) Subordinated Debt secured by a pledge of the Security subordinate to Parity Debt or (iii) partially on a parity with Parity Debt and partially as Subordinated Debt.

(c) State Guarantee. As authorized by subsection (g) of the Constitutional Provision and by Section 201.944 of the Texas Transportation Code, in addition to the security interest in the lien and pledge granted in subsection (a)(i) through (v) of this Section, the Commission may, at its option, pursuant to any Supplement applicable to a particular series or issue of Parity Debt, guarantee on behalf of the State the payment of such Parity Debt by pledging the full faith and credit of the State to the payment of such Parity Debt in the event that the revenue and moneys dedicated to and on deposit in the Mobility Fund are insufficient to provide for the payment of such Parity Debt.

(d) Dedicated Revenues. While moneys in the Mobility Fund are pledged to the payment of any outstanding Parity Debt or Subordinated Debt, Dedicated Revenues may not be reduced, rescinded, or repealed unless: (i) the State legislature by law dedicates a substitute or different source that is projected and certified by the Comptroller to be of equal or greater value than the source or amount being reduced, rescinded, or repealed; and (ii) the Commission implements the State guarantee pursuant to subsection (c) hereof for the payment of outstanding Parity Debt. Revenues from any such revenue source substituted by the State legislature pursuant to this subsection shall constitute Dedicated Revenues.

(e) Perfection. Chapter 1208, Texas Government Code, applies to the issuance of Parity Debt and the pledge of the Security granted by the Commission under this Section and in any applicable Supplement, and such pledge is therefore valid, effective, and perfected. If State law is amended at any time while Parity Debt is outstanding and unpaid such that the pledge of the Security granted by the Commission under this Section and in any applicable Supplement is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve for the owners of Parity Debt the perfection of the security interest in said pledge, the Commission agrees to take such measures as it determines are reasonable and necessary under State law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code and enable a filing to perfect the security interest in said pledge to occur.

Section 3. FUND ACCOUNTS. (a) Creation of Accounts. The Commission hereby establishes and affirms the creation of the following accounts within the Mobility Fund held by the Comptroller, to-wit:

- (i) the Mobility Fund General Account (the "General Account");
- (ii) the Mobility Fund Portfolio Account (the "Portfolio Account");
- (iii) the Mobility Fund Interest and Sinking Account (the "Interest and Sinking Account"); and
- (iv) the Mobility Fund Bond Proceeds Account (the "Bond Proceeds Account").

(b) General Account. Subject to the provisions of Section 4 of this Master Resolution, moneys in the General Account may be used for any lawful purpose for which the Mobility Fund may be used pursuant to the Constitutional Provision, the Enabling Act, and other State law.

(c) Portfolio Account. Any Transportation Assistance Bonds acquired for the Mobility Fund pursuant to Section 7(b) hereof, upon acquisition thereof by the Commission, will be promptly deposited into the Portfolio Account and held therein until paid.

(d) Interest and Sinking Account. Moneys in the Interest and Sinking Account shall be 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 the same become due and payable (whether at Stated Maturity or upon prior redemption), and the Commission shall maintain such account as long as Parity Debt is Outstanding.

(e) Bond Proceeds Account. Proceeds from the issuance of Parity Debt shall be deposited from time to time upon the issuance of such Parity Debt as provided by the applicable Supplement into the Bond Proceeds Account, or any subaccount thereof created with respect to such Parity Debt. Such proceeds and the interest thereon shall remain in the Bond Proceeds Account or applicable subaccount thereof until expended to accomplish the purposes for which such Parity Debt was issued or until otherwise utilized as provided in the applicable Supplement. Amounts in the Bond Proceeds Account do not constitute Security.

(f) Reserve Accounts or Subaccounts. The Commission may establish a reserve account within the Mobility Fund and/or any other account or subaccount pursuant to the provisions of the applicable Supplement for the purpose of paying or securing a particular issue or series of Parity Debt or any specific group of issues or series of Parity Debt and the amounts, once deposited into said accounts or subaccounts, shall no longer constitute Security for all Parity Debt but shall be held solely for the benefit of the owners of the particular issue or series or group of issues or series of Parity Debt for which such account or subaccount was established. Each such account or subaccount shall be designated in such manner as is necessary to identify the Parity Debt it secures and to distinguish such account or subaccount from any other accounts created for the benefit of any other Parity Debt. Any such reserve accounts or subaccounts shall be established in the Supplement related to such series or issue of Parity Debt. The Commission may, in its discretion, provide in the applicable Supplement for a surety bond, insurance policy or other Credit Agreement, to the extent then authorized by law, to be held for the benefit of such a reserve account or subaccount.

(g) Other Accounts. The Commission reserves the right to establish, in connection with the issuance of Parity Debt or for other purposes, one or more additional accounts or subaccounts within the Mobility Fund for such other purposes as the Commission may determine from time to time. The Commission may, at its option, declare in the action establishing the account or subaccount that the amounts in such additional account or subaccount will be either included within or excluded from the Security.

Section 4. FLOW OF FUNDS. (a) Application of Certain Pledged Revenues. All Pledged Revenues shall be deposited in the General Account immediately upon receipt by the Department, the Comptroller or other applicable State agency. Except as provided in subsection (b) below, all Pledged Revenues are hereby and shall be pledged, appropriated, deposited, and transferred from the General Account to the other Accounts and Subaccounts in the Mobility Fund to the extent required for the following uses and in the order of priority shown:

FIRST: to the payment of amounts required to be deposited and credited to the Interest and Sinking Account to meet all financial obligations of the Commission relating to the Financing Program, including payments due on or with respect to the payment of Parity Debt as the same mature or come due;

SECOND: pro rata, on the basis that the Outstanding Principal Amount of each particular issue or series of Parity Debt secured by a reserve account bears to the aggregate Outstanding Principal Amount of all such issues or series of such Parity Debt secured by any reserve account, to the payment of the amounts required to be deposited and credited to each reserve account created and established to maintain a reserve in accordance with the provisions of any Supplement relating to the issuance of any Parity Debt;

THIRD: any amounts to be deposited into any other fund, account or subaccount to the extent required pursuant to the provisions of any Supplement relating to the issuance of Parity Debt;

FOURTH: to the extent required by any resolution or other instrument adopted or approved by the Commission pursuant to which Subordinated Debt is issued, the amount necessary to meet all financial obligations on such Subordinated Debt and to accumulate or restore any required reserves to ensure payment of such principal, premium, and interest shall be deposited to any account or subaccount created for such purpose; and

FIFTH: all remaining Pledged Revenues shall be retained in the General Account.

(b) Repayments and Sale Proceeds. Notwithstanding the foregoing subsection (a), the Commission may direct and apply all Repayments and Sale Proceeds relating to Transportation Assistance Bonds pledged as Security pursuant to Section 7(b) of this Master Resolution in such a manner and to the extent necessary to protect the tax-exempt status of interest on any Parity Debt under the Code.

Section 5. GENERAL REPRESENTATIONS AND COVENANTS. The Commission further represents, covenants, and agrees that while Parity Debt or interest thereon is Outstanding:

(a) Payment of Parity Debt. The Commission will duly and punctually pay or cause the Comptroller to pay, solely from the Security, (i) the Annual Debt Service Requirements on, and other payments with respect to, each and every Parity Debt on the dates and at the places, as such Parity Debt accrues or matures, or becomes subject to mandatory redemption prior to maturity and such payments will be made in the manner provided in said Parity Debt and the Supplement governing its issuance, according to the true intent and meaning thereof and (ii) the fees and expenses related to Parity Debt, including the fees and expenses of the Paying Agent and any registrar, trustee, remarketing agent, tender agent, or credit provider.

(b) Performance. The Commission will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Master Resolution and in each Supplement, and in each and every Parity Debt or evidence thereof and will take such action as is reasonably possible to cause the Comptroller and each other agency of the State to perform each and every duty imposed upon the Comptroller or such agency by law with respect to the Mobility Fund and Parity Debt.

(c) Redemption. The Commission will duly cause to be called for redemption prior to maturity, and will cause to be redeemed prior to maturity, all Parity Debt which by its terms is mandatorily required to be redeemed prior to maturity, when and as required.

(d) Determination of Annual Debt Service Requirements. For all purposes of this Master Resolution, the judgment of the Chief Financial Officer shall be deemed final in the determination of the Annual Debt Service Requirements of the Financing Program.

(e) Lawful Authority. The Commission is lawfully authorized to pledge the Security herein pledged in the manner prescribed herein, and has lawfully exercised such right.

(f) Preservation of Lien. Subject to the conditions set forth in subsection (g) of this Section and in Section 6 of this Master Resolution, the Commission (i) will not do or suffer any act or thing whereby the pledge of the Security might or could be impaired and (ii) will take all actions to the extent necessary to ensure that the Comptroller does not do or suffer any act or thing whereby the pledge of the Security might or could be impaired.

(g) No Additional Encumbrance. The Commission shall not incur additional Debt secured by the Security in any manner, except as permitted by this Master Resolution in connection with Parity Debt, unless said Debt is made junior and subordinate in all respects to the liens, pledges, covenants, and agreements of this Master Resolution and any Supplement. Any Debt incurred by the Commission without satisfying the conditions for the issuance of Parity Debt, as set forth in this Master Resolution, is hereby declared to be Subordinated Debt junior and subordinate in all respects to the liens, pledges, covenants, and agreements of this Master Resolution and any Supplement whether such status is noted or not.

(h) Mobility Fund. The Commission will administer the Mobility Fund in accordance with the Enabling Act, the Constitutional Provision, and any other applicable provision of State law.

(i) Investments and Security. Moneys in all accounts and subaccounts established pursuant to this Master Resolution and any Supplement will be held uninvested or invested and secured in the manner prescribed by State law for such funds and in accordance with the applicable Supplement and written policies adopted by the Commission. The investments of each account and subaccount shall be made under conditions that will timely provide money sufficient to satisfy the Commission's obligations hereunder and under any Supplement. Money in all accounts and subaccounts established pursuant to this Master Resolution and any Supplement may be combined

for investment purposes, as directed by the Commission. Such treatment does not constitute a commingling of the money in such accounts and subaccounts and the Commission shall keep or cause to be kept full and complete records indicating the money, investments and securities credited to each such account and subaccount. Any profits or losses from investments shall be credited or charged, respectively, on a pro rata basis among the accounts and other sources of money from which such investment was made.

(j) Records; Annual Audit. The Commission will keep proper books of record and account in which full, true, and correct entries will be made of all dealings, activities, and transactions relating to the Mobility Fund. Each year while any Parity Debt is Outstanding, the Commission covenants that as soon as practicable, but in no event more than one hundred twenty (120) days after the last day of each Fiscal Year, beginning with the end of the first Fiscal Year in which Parity Debt is issued, it will prepare or cause to be prepared a financial report of the Mobility Fund for such Fiscal Year in accordance with generally accepted accounting principles, certified by a Certified Public Accountant. The Commission shall promptly furnish such audited financial report to the municipal bond rating agencies then maintaining a rating on Parity Debt and to any owner of Parity Debt who shall request the same, and shall file or make available such audited financial report as required by each Supplement. In addition, a copy of each such audited financial report shall be retained on file in the Department's administrative offices and open to the inspection of the owners of Parity Debt, and their respective agents and representatives, at all reasonable times during regular business hours, for at least 365 days following the preparation thereof.

(k) Inspection of Records. The Commission will permit any owner or owners of twenty-five percent (25%) or more of the then Outstanding Principal Amount of Parity Debt at all reasonable times to inspect all records, accounts, and data of the Commission and the Department relating to the Mobility Fund and the Financing Program, except such records as federal or State law may designate as privileged and exempt from disclosure.

Section 6. ISSUANCE OF PARITY DEBT. (a) General. The Commission reserves and shall have the right and power to issue or incur Parity Debt for any purpose authorized by law, including the refunding of Parity Debt, Subordinated Debt, or other obligations of the Commission issued to finance the costs of a project authorized to be financed under the Financing Program, pursuant to the provisions of this Master Resolution and Supplements 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 Parity Debt.

(b) Parity Debt Issued as Long-Term Obligations. Provided that the Commission is in compliance with the requirements of any then applicable provisions of State law, the Commission may from time to time incur, assume, guarantee, or otherwise become liable in respect of Parity Debt constituting Long-Term Obligations if, in the applicable Supplement, the Commission finds that, upon the issuance of such Parity Debt, the Security will be sufficient to meet the financial obligations relating to the Financing Program, including Security in amounts sufficient to satisfy the Annual Debt Service Requirements of the Financing Program. In addition, the Commission shall not issue or incur such Parity Debt unless (i) an Authorized Representative shall deliver to the Commission an Officer's Certificate stating that, to the best of his or her knowledge, the Commission, the Department and the Comptroller have not failed to comply with the covenants contained in this Master Resolution and any Supplement, to any material extent, and are not in default, to any material extent, in the performance and observance of any of the terms, provisions, and conditions hereof, thereof, or under any Credit Agreement that constitutes Parity Debt and (ii) to the extent then required by law, the Commission has received all required certifications of the Comptroller with respect to such Parity Debt.

(c) Parity Debt Issued as Short-Term Obligations. Provided that the Commission is in compliance with the requirements of any then applicable provisions of State law, the Commission may from time to time incur, assume, guarantee, or otherwise become liable in respect of Parity Debt constituting Short-Term Obligations if, in the applicable Supplement, the Commission finds that, upon the issuance of such Parity Debt, the Security will be sufficient to meet the financial obligations relating to the Financing Program, including Security in amounts sufficient to satisfy the Annual Debt Service Requirements of the Financing Program. In addition, the Commission shall not issue or incur such Parity Debt unless (i) an Authorized Representative shall deliver to the Commission an Officer's Certificate stating that, to the best of his or her knowledge, the Commission, the Department and the Comptroller have not failed to comply with the covenants contained in this Master Resolution and any Supplement, to any material extent, and are not in default, to any material extent, in the performance and observance of any of the terms, provisions, and conditions hereof, thereof or under any Credit Agreement that constitutes Parity Debt and (ii)

to the extent then required by law, the Commission has received all required certifications of the Comptroller with respect to such Parity Debt.

(d) Credit Agreements. To the extent permitted by law, the Commission may execute and deliver one or more Credit Agreements (i) upon the delivery to the Commission 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 subsection (b) or (c) of this section as the case may be, if the Credit Agreement is to constitute Parity Debt. Each Credit Agreement shall be approved by the Commission, to the extent required by law, either pursuant to a Supplement or by other action. Credit Agreements and the obligations thereunder may, pursuant to their terms, constitute (i) Parity Debt secured by a pledge of the Security on parity with other Parity Debt, (ii) Subordinated Debt secured by a pledge of the Security subordinate to Parity Debt, or (iii) partially Parity Debt and partially Subordinated Debt.

(e) Non-Recourse Debt and Subordinated Debt. Non-Recourse Debt and Subordinated Debt may be incurred by the Commission in accordance with State law.

(f) Increase in Financing Program. The principal amount of the Financing Program, as authorized by Section 1, may be increased by the Commission upon a finding by the Commission to the effect that the Dedicated Revenues will be sufficient to pay all amounts to be payable from Dedicated Revenues. The increase in the principal amount of the Financing Program does not relieve the Commission from any of the Controlling Provisions, including specifically the other requirements of this Section 6 relating to the issuance or incurrence of Parity Debt by the Commission.

Section 7. TRANSPORTATION ASSISTANCE BONDS. (a) Purchase of Transportation Assistance Bonds. To the extent then authorized by State law, including specifically, Section 222.103, Texas Transportation Code, the Commission may use available moneys in the Mobility Fund to provide participation by the State, by loan, in the payment of part of the costs of constructing and providing publicly owned toll roads and other public transportation projects or otherwise as provided by law. The Commission may evidence such a loan by the purchase of Transportation Assistance Bonds from the entity receiving such a loan.

(b) Pledge of Transportation Assistance Bonds. The Commission, pursuant to a Supplement, may pledge the Repayments relating to particular Transportation Assistance Bonds to the payment of Parity Debt and such Transportation Assistance Bonds shall be held in the Portfolio Account of the Mobility Fund and the Repayments shall be deposited into the General Account.

Section 8. WAIVER OF CERTAIN COVENANTS. The Commission may omit in any particular instance to comply with any covenant or condition set forth in Sections 5 and 6 hereof if before or after the time for such compliance the Holders of the same percentage in Outstanding Principal Amount, 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 duties of the Commission in respect of any such covenant or condition shall remain in full force and effect. For the purpose of this Section, the Commission may determine in each Supplement the treatment of who may act as an "owner", "Holder", or "Bondholder" and other matters relating to such Parity Debt, including designating any municipal bond insurance company providing an insurance policy on the payment of Parity Debt or the provider under a Credit Agreement as the sole owner of such Parity Debt.

Section 9. INDIVIDUALS NOT LIABLE. All covenants, stipulations, obligations, and agreements of the Commission contained in this Master Resolution and any Supplement shall be deemed to be covenants, stipulations, obligations, and agreements of the Financing Program, the Mobility Fund, and the Department to the full extent authorized or permitted by the Constitution and State law. No covenant, stipulation, obligation, or agreement herein contained shall be deemed to be a covenant, stipulation, obligation, or agreement of any member of the Commission or agent or employee of the Department in his or her individual capacity and neither the members of the Commission, nor any officer, employee, or agent of the Department shall be liable personally on Parity Debt when issued, or be subject to any personal liability or accountability by reason of the issuance thereof.

Section 10. SPECIAL OBLIGATIONS; ABSOLUTE OBLIGATION TO PAY PARITY DEBT. All Parity Debt and the interest thereon shall constitute special obligations of the Commission payable from the Security, and except as provided in Section 2(c) hereof, the owners of Parity Debt shall never have the right to demand payment out of funds raised or to be raised by taxation, or from any source other than those specified in this Master Resolution or any Supplement. The obligation of the Commission to pay or cause to be paid the amounts payable under this Master Resolution and each Supplement out of the Security shall be absolute, irrevocable, complete, and unconditional, and the amount, manner, and time of payment of such amounts shall not be decreased, abated, rebated, setoff, reduced, abrogated, waived, diminished, or otherwise modified in any manner or to any extent whatsoever, regardless of any right of setoff, recoupment, or counterclaim that the Commission might otherwise have against any owner or any other party and regardless of any contingency, force majeure, event, or cause whatsoever and notwithstanding any circumstance or occurrence that may arise or take place before, during, or after the issuance of Parity Debt while any Parity Debt is Outstanding.

In addition, the obligation of the State, to the extent that the full faith and credit of the State is pledged to the payment of an issue or series of Parity Debt pursuant to the Constitutional Provision and Section 2(c) of this Master Resolution, to pay or cause to be paid the amounts payable under this Master Resolution and each Supplement shall be absolute, irrevocable, complete, and unconditional, and the amount, manner, and time of payment of such amounts shall not be decreased, abated, rebated, setoff, reduced, abrogated, waived, diminished, or otherwise modified in any manner to any extent whatsoever, regardless of any right of setoff, recoupment, or counterclaim that the State might otherwise have against any owner or any other party and regardless of any contingency, force majeure, event, or cause whatsoever and notwithstanding any circumstance or occurrence that may arise or take place before, during, or after the issuance of Parity Debt while any Parity Debt is Outstanding.

Section 11. REMEDIES. Pursuant to the Constitutional Provision and as allowed by other law, the State has waived sovereign immunity with respect to the enforcement of the obligations of the Commission and the State pursuant to mandamus proceedings. Any owner of Parity Debt in the event of default in connection with any covenant contained herein or in any Supplement, or default in the payment of Annual Debt Service Requirements due in connection with any Parity Debt, or other costs and expenses related thereto, may require the Commission, the Department, its officials and employees, and any appropriate official of the State, to carry out, respect, or enforce the covenants and obligations of this Master Resolution or any Supplement, by all legal and equitable means, including specifically the use and filing of mandamus proceedings in any court of competent jurisdiction in Travis County, Texas against the Commission, the Department, its officials and employees, or any appropriate official of the State.

Section 12. DEFEASANCE OF PARITY DEBT. Each Supplement authorizing Parity Debt may provide by its respective terms the circumstances and conditions under which such Parity Debt may be considered Defeased Debt.

Section 13. AMENDMENT OF RESOLUTION. (a) Amendment Without Consent. This Master Resolution and the rights and obligations of the Commission and of the owners of the Outstanding Parity Debt may be modified or amended at any time without notice to or the consent of any owner of the Outstanding Parity Debt, solely for any one or more of the following purposes:

(i) To add to the covenants and agreements of the Commission contained in this Master 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 Master Resolution;

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

(iii) To supplement the Security for the Outstanding Parity Debt or to change the definition of Dedicated Revenues as may be altered by the State Legislature from time to time in accordance with the Constitutional Provision and State law;

(iv) 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 Outstanding Parity Debt;

(v) 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 a series or issue of Parity Debt, which changes or amendments do not, in the judgment of the Commission, materially adversely affect the interests of the owners of the Outstanding Parity Debt;

(vi) To make any changes or amendments requested by any bond rating agency then rating or requested to rate Parity Debt, 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 Parity Debt; or

(vii) To change the principal amount of the Financing Program as provided in Section 6(f).

(b) Amendments With Consent. Subject to the provisions of Section 13(g) of this Master Resolution, the owners of Outstanding Parity Debt aggregating a majority in Outstanding Principal Amount shall have the right from time to time to approve any amendment, other than amendments described in subsection (a) of this Section, to this Master Resolution which 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 Parity Debt (unless such amendment shall be determined by the Commission to affect only the owners of certain Parity Debt, in which case such amendment shall not be made without the approval of the owners so affected), the amendment of the terms and conditions in this Master Resolution so as to:

(i) Grant to the owners of any Outstanding Parity Debt a priority over the owners of any other Outstanding Parity Debt; or

(ii) Materially adversely affect the rights of the owners of less than all Parity Debt then Outstanding; or

(iii) Change the minimum percentage of the Outstanding Principal Amount necessary for consent to such amendment; or

(iv) Make any change in the maturity of any Outstanding Parity Debt; or

(v) Reduce the rate of interest borne by any Outstanding Parity Debt; or

(vi) Reduce the amount of the principal payable on any Outstanding Parity Debt; or

(vii) Modify the terms of payment of the amounts required to meet any financial obligations of the Commission relating to the Financing Program, including payments due on or with respect to the payment of any Outstanding Parity Debt, or impose any conditions with respect to such; or

(viii) Amend this subsection (b) of this Section.

(c) Notice. If at any time the Commission shall desire to amend this Master Resolution pursuant to subsection (b) of this Section, 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 of Texas (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 each Registrar for any Parity Debt for inspection by all owners of Parity Debt. Such publication is not required, however, if the Commission gives or causes to be given such notice in writing, by certified mail, to each owner of Parity Debt. A

copy of such notice shall be provided in writing to each national rating agency maintaining a rating on any Parity Debt.

(d) Receipt of Consents. With respect to any amendment undertaken pursuant to subsection (b) above, whenever at any time the Commission shall receive an instrument or instruments executed by all of the owners or the owners of a majority in Outstanding Principal Amount, as appropriate, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically 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.

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

(f) Consent Irrevocable. Any consent given by any owner of Parity Debt pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication or other service of the notice provided for in this Section or the date of such consent, whichever is later, and shall be conclusive and binding upon all future owners of the same Parity Debt during such period. Such consent may be revoked at any time after the applicable period of time that a consent is irrevocable by the owner who gave such consent, or by a successor in title, by filing notice thereof with the Registrar for such Parity Debt and the Commission, but such revocation shall not be effective if the owners of the requisite amount of the Outstanding Principal Amount, prior to the attempted revocation, consented to and approved the amendment. Notwithstanding the foregoing, any consent given by an owner at the time of and in connection with the initial sale or incurrence of an issue or series Parity Debt by the Commission shall be irrevocable.

(g) Ownership. For the purpose of this Section, the Commission may determine in each Supplement the treatment of who may act as an "owner", "Holder", or "Bondholder" and other matters relating to all Parity Debt, including designating any municipal bond insurance company providing an insurance policy on the payment of Parity Debt or the provider under a Credit Agreement as the sole owner of such Parity Debt.

(h) Amendments of Supplements. Each Supplement shall contain provisions governing the ability of the Commission to amend such Supplement; provided, however, that no amendment may be made to any Supplement for the purpose of granting to the owners of Outstanding Parity Debt under such Supplement a priority over the owners of any other Outstanding Parity Debt.

Select Provisions of the Fifth Supplemental Resolution¹

Section 1.02. ESTABLISHMENT OF FINANCING PROGRAM AND ISSUANCE OF PARITY DEBT.

(b) Series 2006-B Bonds Are Parity Debt. As required by Section 6 of the Master Resolution governing the issuance of Long-Term Obligations such as the Series 2006-B Bonds, the Commission hereby finds that, upon the issuance of the Series 2006-B Bonds, the Security will be sufficient to meet the financial obligations relating to the Financing Program, including Security in amounts sufficient to satisfy the Annual Debt Service Requirements of

¹The Fifth Supplemental Resolution authorizes the issuance of multi-modal bonds in an aggregate principal amount not to exceed \$300,000,000. References in the following excerpts to the "Series 2006-B Bonds" is the same as "Bonds" described in the body of this Official Statement.

the Financing Program. The Series 2006-B Bonds, including any Purchased Bonds, are hereby declared to be Parity Debt under the Master Resolution.

(c) State Guarantee. The Commission hereby exercises the authority provided for in subsection (g) of the Constitutional Provision, Section 201.944, Texas Transportation Code, and Section 2(c) of the Master Resolution and guarantees on behalf of the State the payment of the Series 2006-B Bonds, including any Purchased Bonds and any Credit Agreements executed under Section 12.10 of this Fifth Supplement, by pledging the full faith and credit of the State to the payment of the Series 2006-B Bonds, including any Purchased Bonds and any Credit Agreements executed under Section 12.10 of this Fifth Supplement, in the event that the revenue and moneys dedicated to and on deposit in the Mobility Fund are insufficient to provide for the payment of the Series 2006-B Bonds and any Credit Agreements executed under Section 12.10 of this Fifth Supplement.

Section 4.01. DETERMINATION OF INTEREST RATES AND INTEREST PERIODS DURING COMMERCIAL PAPER MODE. (a) Commercial Paper Rates. Interest Periods in a Commercial Paper Mode shall be of such duration, of at least one day and not more than 270 days, ending on a day next preceding a Business Day or the Maturity Date, as the Remarketing Agent shall determine in accordance with the provisions of this Section 4.01; provided, however, no Interest Period shall extend beyond the date which is five days prior to the Expiration Date of the Liquidity Facility. In making the determinations with respect to Interest Periods, subject to the limitations imposed by the preceding sentence, the Remarketing Agent shall on each Rate Determination Date select for each Series 2006-B Bond then subject to such adjustment the Interest Period which, if implemented on such Rate Determination Date, would result in the Remarketing Agent being able to remarket such Series 2006-B Bond at par in the secondary market at the lowest interest rate then available and for the longest Interest Period available at such rate, provided that if on any Rate Determination Date, the Remarketing Agent determines that current or anticipated future market conditions or anticipated future events are such that a different Interest Period would result in a lower average interest cost on such Series 2006-B Bond, then the Remarketing Agent shall select the Interest Period which, in the judgment of the Remarketing Agent, would permit such Series 2006-B Bond to achieve such lower average interest cost; provided, however, that if the Remarketing Agent has received notice from the Commission that any Series 2006-B Bond is to be changed from the Commercial Paper Mode to any other Mode or if it is to be purchased pursuant to Section 6.05 hereof, the Remarketing Agent shall, with respect to such Series 2006-B Bond, select Interest Periods which do not extend beyond the Mandatory Purchase Date.

(b) Determination of Rate and Notice. By 1:00 p.m. on each Rate Determination Date, the Remarketing Agent shall, with respect to each Commercial Paper Rate Bond that is subject to adjustment on such date, determine an interest rate for the Interest Period then selected for such Series 2006-B Bond and, no later than 1:00 p.m., shall give notice by Electronic Means to the Commission, the Paying Agent/Registrar and the Tender Agent of the applicable Interest Period, Purchase Date and interest rate.

(c) Agreement to Rate, Interest Period and Purchase Date. By acceptance of any Commercial Paper Rate Bond, the Owner thereof shall be deemed to have agreed, during each Interest Period, to the interest rate (including the Alternate Rate, if applicable), Interest Period and Purchase Date then applicable thereto and to have further agreed to tender such Series 2006-B Bond to the Tender Agent for purchase on the next succeeding Purchase Date at the Purchase Price. Such Owner further acknowledges that if funds for such purchase are on deposit with the Tender Agent on such Purchase Date, such Owner shall have no rights under the Master Resolution or this Fifth Supplement other than to receive the payment of such Purchase Price and that interest shall cease to accrue to such owner on such Purchase Date.

Section 4.02. DETERMINATION OF INTEREST RATE DURING DAILY MODE. The interest rate for any Series 2006-B Bond in the Daily Mode shall be the rate of interest per annum determined by the Remarketing Agent on or before 10:00 a.m. on the Rate Determination Date as the minimum rate of interest that, in the sole judgment of the Remarketing Agent, would, under then existing market conditions, result in the sale of the Series 2006-B Bonds in the Daily Mode on the Rate Determination Date at a price equal to the principal amount thereof, plus accrued interest, if any. The Remarketing Agent shall make the rate available once a week by Electronic Means to the Commission, the Paying Agent/Registrar and the Tender Agent by 11:00 a.m., on the Rate Determination Date. With respect to any day that is not a Business Day, the interest rate shall be the same rate as the interest rate

established for the immediately preceding Business Day. The determination of each interest rate by the Remarketing Agent shall, in the absence of manifest error, be conclusive and binding upon the Remarketing Agent, the Tender Agent, the Paying Agent, the Liquidity Facility Issuer, the Commission and the owners of the Series 2006-B Bonds.

Section 4.03. DETERMINATION OF INTEREST RATE DURING INITIAL MODE AND WEEKLY MODE. (a) Weekly Mode. The interest rate for Series 2006-B Bonds in a Weekly Mode for each Interest Period shall be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest that, in the sole judgment of the Remarketing Agent, would, under then existing market conditions, result in the sale of the Series 2006-B Bonds in the Weekly Mode on the Rate Determination Date at a price equal to the principal amount thereof, plus accrued interest, if any. The Remarketing Agent shall make the rate available by Electronic Means to the Commission, the Paying Agent/Registrar and the Tender Agent by 4:00 p.m., on the Business Day immediately succeeding the Rate Determination Date. The Interest Period while Series 2006-B Bonds are in the Weekly Mode will begin on and include Wednesday, and continue through and include the next succeeding Tuesday. The determination of each interest rate by the Remarketing Agent shall be conclusive and binding, in the absence of manifest error, upon the Remarketing Agent, the Tender Agent, the Paying Agent, the Liquidity Facility Issuer, the Commission and the Owners of the Series 2006-B Bonds.

(b) Initial Mode. The Series 2006-B Bonds shall bear interest at the Initial Rate for the Initial Mode. At the end of the Initial Mode, the Series 2006-B Bonds shall be subject to mandatory tender, without right of retention, pursuant to Section 6.03. Thereafter, the Series 2006-B Bonds shall bear interest in the Daily Mode or the Weekly Mode unless a different Mode is designated by the Department Representative pursuant to Section 4.07. The Initial Rate shall be the rate of interest per annum determined by the Remarketing Agent as the minimum rate of interest that, in the sole judgment of the Remarketing Agent, would, under the existing market conditions, result in the sale of the Series 2006-B Bonds in the Initial Mode at a price equal to the principal amount thereof, plus accrued interest, if any. The determination of the Initial Rate by the Remarketing Agent shall be conclusive and binding, in the absence of manifest error, upon the Remarketing Agent, the Tender Agent, the Paying Agent/Registrar, the Liquidity Facility Issuer, the Commission and the Owners of the Series 2006-B Bonds.

Section 4.04. DETERMINATION OF INTEREST RATE AND INTEREST PERIODS DURING TERM RATE MODE AND FIXED RATE MODE. (a) Term Rates. The Term Rate to be effective for the Interest Period commencing on any Mode Change Date after which Series 2006-B Bonds will bear interest at a Term Rate or any Purchase Date while Series 2006-B Bonds are in the Term Rate Mode shall be determined by the Remarketing Agent. No later than 4:00 p.m. on the Business Day next preceding the Mode Change Date or the Purchase Date, as the case may be, the Remarketing Agent shall determine the Term Rate and shall make the Term Rate available by Electronic Means to the Commission, the Paying Agent/Registrar and the Tender Agent. The Term Rate shall be the minimum rate that, in the sole judgment of the Remarketing Agent, would result in a sale of the Series 2006-B Bonds at a price equal to the principal amount thereof on the Rate Determination Date taking into consideration the duration of the Interest Period, which shall be established by the Commission acting through the Department Representative.

(b) Fixed Rate. The Fixed Rate to be effective for the Interest Period commencing on any Mode Change Date after which Series 2006-B Bonds will bear interest at a Fixed Rate shall be determined by the Remarketing Agent. No later than 4:00 p.m. on the Business Day next preceding the Mode Change Date, the Remarketing Agent shall determine the Fixed Rate and shall make the Fixed Rate available by Electronic Means to the Commission, the Paying Agent/Registrar and the Tender Agent. The Fixed Rate shall be the minimum rate that, in the sole judgment of the Remarketing Agent, would result in a sale of the Series 2006-B Bonds at a price equal to the principal amount thereof on the Rate Determination Date taking into consideration the duration of the Interest Period.

(c) Failure to Establish Term Rate or Fixed Rate. If, for any reason, a Term Rate or Fixed Rate cannot be established on a Purchase Date, the Series 2006-B Bonds, other than Series 2006-B Bonds in an Auction Rate Mode, will be changed automatically to the Weekly Mode on the Purchase Date; provided, however, that a Liquidity Facility must be in effect.

Section 4.05. ALTERNATE RATE FOR INTEREST CALCULATION. If the Remarketing Agent fails to determine the interest rate(s) or Interest Periods with respect to the Series 2006-B Bonds, or if the method of determining the interest rate(s) or Interest Periods with respect to the Series 2006-B Bonds shall be held to be

unenforceable by a court of law of competent jurisdiction, then the Series 2006-B Bonds shall thereupon (until such time as the Remarketing Agent again makes such determination, or until there is delivered to the Commission and the Remarketing Agent a Favorable Opinion of Bond Counsel) bear interest and operate as follows: the Series 2006-B Bonds constituting maturing Commercial Paper Rate Bonds shall be converted to the Weekly Mode and Series 2006-B Bonds in the Daily Mode, Term Rate Mode and Weekly Mode shall bear interest at the Alternate Rate for subsequent weekly periods.

Section 4.07. **CHANGES IN MODE.** (a) Changes. Any Mode, other than a Fixed Rate Mode, may be changed to any other Mode at the times and in the manner hereinafter provided. Subsequent to such change in Mode, the Series 2006-B Bonds may be changed to a different Mode at the times and in the manner hereinafter provided. Any Series 2006-B Bonds converted to a Fixed Rate Mode shall not be changed to any other Mode except as provided in Section 6.04 hereof.

(b) Notice of Intention to Change Mode. The Commission shall give written notice to the Notice Parties of its intention to effect a change in the Mode from the Mode then prevailing (the "Current Mode") to another Mode (the "New Mode") specified in such written notice, together with the proposed Mode Change Date. Such notice shall be given at least 20 days prior to the Mode Change Date if the Current Mode is the Auction Rate Mode, the Initial Mode, the Daily Mode, the Weekly Mode or the Commercial Paper Mode; such notice shall be given at least 35 days prior to the Mode Change Date if the Current Mode is the Term Rate Mode with a duration of six months or more.

(c) General Provisions Applying to Changes from One Mode to Another.

(i) The Mode Change Date must be a Business Day.

(ii) Additionally, the Mode Change Date:

A. From the Commercial Paper Mode shall be the last Purchase Date for the Commercial Paper Rate Bonds with respect to which a change is to be made;

B. From a Term Rate Mode or the Initial Mode shall be the Purchase Date of the current Interest Period;

C. From an Auction Rate Mode shall be an Interest Payment Date; provided, however, in the case of a Special Auction Period of 92 or more days, such date shall be the Interest Payment Date following the last day of such Special Auction Period;

D. From a Fixed Rate Mode pursuant to Section 6.04 hereof shall be the Purchase Date of the current Interest Period; and

E. From a Daily Mode to a Weekly Mode or from a Weekly Mode to a Daily Mode shall be a Business Day.

(iii) On or prior to the date the Department Representative provides the notice to the Notice Parties pursuant to Section 4.07(b) hereof, the Department Representative shall deliver to the Notice Parties a counsel's opinion to the effect that such counsel expects to be able to deliver a Favorable Opinion of Bond Counsel on the Mode Change Date; provided, however, a Favorable Opinion of Bond Counsel is not required for a Mode Change Date from the Initial Mode to the Daily Mode or Weekly Mode that immediately follows.

(iv) No change in Mode will become effective unless all conditions precedent thereto have been met and the following items shall have been delivered to the Paying Agent and the Remarketing Agent two (2) Business Days prior to the Mode Change Date, or such later time as is acceptable to the Commission, the Paying Agent, any Broker-Dealer and the Remarketing Agent:

A. Except in the case of a change in Mode pursuant to Section 4.04(c) hereof or a change from the Initial Mode to the Daily Mode or the Weekly Mode that immediately follows, a Favorable Opinion of Bond Counsel dated the Mode Change Date; and

B. With respect to a change in Mode to the Daily Mode, Weekly Mode, Commercial Paper Rate Mode or Term Rate Mode of less than one year, a Liquidity Facility with the necessary Liquidity Amount for such New Mode.

(v) If all conditions to the Mode Change are met, the Interest Period(s) or the Auction Period for the New Mode shall commence on the Mode Change Date and the Interest Rate(s) (together, in the case of a change to the Commercial Paper Mode, with the Interest Period(s)) shall be determined by the Remarketing Agent or the Auction Agent, as the case may be, in the manner provided in Sections 4.01, 4.02, 4.03, 4.04, 4.05 and 4.06 hereof, as applicable.

(vi) With respect to a change in the Mode from any Mode other than an Auction Rate Mode to any other Mode, in the event the foregoing conditions of this Section 4.07(c) have not been satisfied by the Mode Change Date, then the New Mode shall not take effect (although, except in the case of a failed conversion from an Auction Mode, any mandatory purchase shall be made on such date if notice has been sent to the Owners stating that such Series 2006-B Bonds would be subject to mandatory purchase on such date). If the failed change in Mode was from the Commercial Paper Mode, the Series 2006-B Bonds shall remain in the Commercial Paper Mode with interest rates and Interest Periods to be established by the Remarketing Agent on the failed Mode Change Date in accordance with Section 4.01 hereof. If the failed change in Mode was from the Daily Mode, the Series 2006-B Bonds shall remain in the Daily Mode, and if the failed change in Mode was from the Weekly Mode, the Series 13 Fifth Supplemental Resolution 8-8-06 E 2006-B Bonds shall remain in the Weekly Mode, in each case with interest rates established in accordance with the applicable provisions of Sections 4.02 and 4.03, respectively, hereof on and as of the failed Mode Change Date. If the failed change in Mode was from the Term Rate Mode, then the Series 2006-B Bonds shall stay in the Term Rate Mode for an Interest Period ending on the following Interest Payment Date for the Series 2006-B Bonds in the Term Rate Mode and the interest rate shall be established by the Remarketing Agent on the failed Mode Change Date in accordance with Section 4.04(a).

(d) Serial Bonds. The Commission may, in the notice given pursuant to Section 4.07(b) hereof in connection with any Mode change of Series 2006-B Bonds to the Term Rate Mode or Fixed Rate Mode, provide for serial maturities of all or some of the Series 2006-B Bonds subject to such Mode change. The principal amount of and interest on such serial bonds and the maturity dates thereof shall be set forth in the notice given pursuant to Section 4.07(b) hereof. The interest rate for such serial bonds maturing on a particular date may be different from the interest rate or rates established for other Series 2006-B Bonds.

(e) No Partial Mode Changes. All Series 2006-B Bonds shall be in the same Mode, provided that in the event that the Series 2006-B Bonds are issued or converted or remarketed in subseries bearing additional designations in accordance with Section 2.01 hereof, Series 2006-B Bonds of any such subseries shall be in the same Mode and references herein to Series 2006-B Bonds shall be deemed to refer to Series 2006-B Bonds of such subseries, all as shall be set forth in an Award Certificate of a Department Representative at initial issuance of the Series 2006-B Bonds and thereafter in a certificate of the Department Representative; and, provided, further, that in the event that the Series 2006-B Bonds are converted or remarketed in subseries, the Commission shall obtain prior written confirmation from each Rating Agency that the then current ratings of the Series 2006-B Bonds will not be reduced or withdrawn.

Section 5.01. OPTIONAL REDEMPTION. (a) Commercial Paper Mode. Series 2006-B Bonds in the Commercial Paper Mode shall be subject to redemption at the option of the Commission (acting through the Department Representative), in whole or in part, on their respective Purchase Dates at the redemption price (100 percent of the principal amount), plus accrued interest, if any, to the Redemption Date.

(b) Auction Rate Mode. Series 2006-B Bonds in the Auction Rate Mode shall be subject to redemption at the option of the Commission (acting through the Department Representative), in whole or in part, on any Interest

Payment Date immediately following an Auction Period, at the redemption price (100 percent of the principal amount), plus accrued interest, if any, to the Redemption Date; provided, however, that in the event of a partial redemption of the Series 2006-B Bonds in an Auction Rate Mode, the aggregate principal amount of Series 2006-B Bonds in an Auction Rate Mode which will remain outstanding shall be equal to or more than \$10,000,000 unless otherwise consented to by each affected Broker-Dealer.

(c) Daily Mode or Weekly Mode. Series 2006-B Bonds in the Daily Mode or Weekly Mode shall be subject to redemption at the option of the Commission (acting through the Department Representative), in whole or in part, on any Business Day, at the redemption price (100 percent of the principal amount), plus accrued interest, if any, to the Redemption Date.

(d) Term Rate Mode Less Than Four Years. Series 2006-B Bonds in a Term Rate Mode during an Interest Period that is less than four years shall be subject to redemption at the option of the Commission (acting through the Department Representative), in whole or in part on their individual Purchase Dates, at the redemption price (100 percent of the principal amount), plus interest, if any, accrued to the Redemption Date.

(e) Term Rate Mode Four Years or Greater and Fixed Rate Mode. Series 2006-B Bonds in the Term Rate Mode during an Interest Period that is equal to or greater than four years or Series 2006-B Bonds in the Fixed Rate Mode are subject to redemption at the option of the Commission (acting through the Department Representative), in whole or in part, on any date following the No Call Period at the redemption prices (plus accrued interest, if any), both as set forth below:

Optional Redemption During Term Rate Mode And Fixed Rate Mode

Duration of Interest Period in Term Rate Mode or Fixed Rate Mode	No Call Period (commencing on the date of commencement of the Term Rate Mode or Fixed Rate Mode Interest Period)	Redemption Price
Greater than or equal to 11 years	8 years	100%
Greater than or equal to 8 years and less than 11 years	6 years	100%
Greater than or equal to 4 years and less than 8 years	3 years	100%
Duration of Interest Period in Fixed Rate Mode less than 4 years	Subject to optional redemption at any time	100%

(f) Alteration of Rights. The Commission may, in connection with a change to a Term Rate Mode or Fixed Rate Mode, or on any Purchase Date for Series 2006-B Bonds bearing interest at a Term Rate, alter its rights as described above in Section 5.01(e) hereof to redeem any Series 2006-B Bonds on and prior to the Mode Change Date or Purchase Date, as the case may be, without the consent of the Owners of the Series 2006-B Bonds; provided, however, that notice describing the alteration shall be submitted to the Tender Agent, the Paying Agent, the Liquidity Facility Issuer, and the Remarketing Agent, together with a Favorable Opinion of Bond Counsel, addressed to each of them.

(g) Purchase in Lieu of Redemption. Notwithstanding anything in this Fifth Supplement to the contrary, if and to the extent that the Series 2006-B Bonds are subject to optional redemption pursuant to this Fifth Supplement, all or a portion of the Series 2006-B Bonds to be redeemed as specified in the notice of redemption, may be purchased by the Paying Agent at the direction of the Department Representative on the date which would be the redemption date if such Series 2006-B 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 Series 2006-B Bonds on the redemption date for the account of and at the direction of the Department Representative who shall give the Paying Agent notice at least ten (10) days prior to the scheduled redemption date (forty-five (45) days prior to the scheduled redemption date for Series 2006-B Bonds in Fixed Rate Mode) accompanied by a Favorable Opinion of Bond Counsel. In the event the Paying Agent is so directed to purchase Series 2006-B Bonds in lieu of optional redemption, no notice to the Owners of Series 2006-B Bonds to be so purchased (other than the notice of redemption

otherwise required hereunder) shall be required, and the Paying Agent shall be authorized to apply to such purchase the funds which would have been used to pay the redemption price for such Series 2006-B Bonds if such Series 2006-B Bonds had been redeemed rather than purchased. Each Series 2006-B 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. Series 2006-B Bonds to be purchased under this Section 5.01(g) which are not delivered to the Paying Agent 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. If purchased from funds other than bond proceeds, the Commission shall cause to be delivered a preference opinion with respect to funds used to purchase Series 2006-B Bonds.

(h) Redemption of Purchased Bonds. Purchased Bonds are subject to redemption, at the option of the Commission (acting through a Department Representative), in whole or in part on any Business Day, at a redemption price equal to the principal amount of the Purchased Bonds to be redeemed plus accrued interest, if any, thereon to the redemption date. Purchased Bonds shall also be subject to mandatory redemption in accordance with the terms of the Liquidity Facility. Notice of redemption, identifying the principal amount of Purchased Bonds to be redeemed, shall be given by a Department Representative to the Paying Agent, the Liquidity Facility Issuer and the Owner of the Purchased Bonds (if other than the Liquidity Facility Issuer) at such Owner's last address appearing on the Security Register for the Series 2006-B Bonds, ten (10) days before the redemption date. Notwithstanding any provision of this Fifth Supplement to the contrary, no additional notice of redemption need be provided. All Purchased Bonds so called for redemption will cease to bear interest on the date fixed for redemption, provided funds for their redemption have been deposited with the Paying Agent and, thereafter, except as provided in the Liquidity Facility, the Liquidity Facility Issuer shall have no rights in respect thereof except to receive payment of the redemption price from the Paying Agent and a new Purchased Bond for any unredeemed portion of such Purchased Bond. If less than all of the Purchased Bonds are to be redeemed, the Paying Agent shall select the Purchased Bonds or portions thereof to be redeemed by lot in Authorized Denominations, unless ownership of such Purchased Bonds is then determined by a book entry at a securities depository, in which event the selection of the Purchased Bonds or portions thereof to be redeemed shall be made in accordance with arrangements among the Commission, the Paying Agent and the securities depository. If there shall be called for redemption less than the entire principal amount of a Purchased Bond, the Commission shall execute and the Paying Agent shall authenticate and deliver (without charge to the Owner) Purchased Bonds in any Authorized Denominations, upon surrender of such called Purchased Bonds in exchange for the unredeemed principal amount of such Purchased Bond. If less than all of the Series 2006-B Bonds shall be redeemed, the Commission shall redeem all Purchased Bonds prior to the optional redemption of any other Series 2006-B Bonds.

(i) Initial Mode. Series 2006-B Bonds in the Initial Mode are not subject to optional redemption.

Section 5.02. REDEMPTION FROM AMORTIZATION INSTALLMENTS. (a) Mandatory Redemption. The Series 2006-B Bonds may be subject to mandatory redemption and payment prior to maturity on such dates and in such years, at such price(s) plus accrued interest to the redemption date in accordance with a mandatory amortization installment schedule to be approved by a Department Representative prior to the issuance of the Series 2006-B Bonds, which schedule shall be set forth in the Award Certificate.

(b) Credit for Optional Redemption. The Paying Agent shall make timely selection of such Series 2006-B Bonds or portions thereof to be so redeemed in Authorized Denominations of principal amount in such equitable manner as the Paying Agent may determine and shall give notice thereof without further instructions from the Commission. At the option of the Commission, to be exercised on or before the 45 day next preceding each amortization installment redemption date, the Commission may: (i) deliver Series 2006-B Bonds to the Paying Agent for cancellation; or (ii) elect to receive a credit in respect to the mandatory redemption obligation under this Section 5.02 for any Series 2006-B Bonds which prior to such date have been paid (other than through the operation of the requirements of this Section 5.02) and cancelled by the Paying Agent and not theretofore applied as a credit against any redemption obligation under this Section 5.02. Each Series 2006-B Bond of a maturity so delivered or previously purchased or redeemed shall be credited at 100 percent of the principal amount thereof on the obligation to redeem Series 2006-B Bonds of such maturity on the next mandatory redemption date applicable to Series 2006-B Bonds of such maturity that is at least 45 days after receipt by the Paying Agent of such instructions from the Commission, and any excess of such amount shall be credited on future mandatory redemption obligations for Series 2006-B Bonds of such maturity in chronological order or such other order as the Commission may designate, and

the principal amount of Series 2006-B Bonds of such maturity to be redeemed on such future mandatory redemption dates by operation of the requirements of this Section 5.02 shall be reduced accordingly. If the Commission intends to exercise any option granted by the provisions of this clause (b) of Section 5.02, the Commission will, on or before the 45 day next preceding the applicable mandatory redemption date, furnish the Paying Agent a written certificate indicating to what extent the provisions of said clauses (a) or (b) are to be complied with in respect to such mandatory redemption payment.

Section 5.03. REDEMPTION IN PART. In the event of redemption of less than all the Series 2006-B Bonds, then, subject to the provisions of this Section 5.03 below, the Series 2006-B Bonds or portions thereof to be redeemed shall be selected by the Paying Agent by lot in such manner as the Paying Agent in its discretion may determine; provided, however, the Series 2006-B Bonds to be redeemed shall be in Authorized Denominations; and provided, further, any Series 2006-B Bonds which are Purchased Bonds shall be redeemed prior to any other Series 2006-B Bonds. To the extent that the principal amount of Purchased Bonds redeemed exceeds any semiannual installment amount required to be paid by the Commission as described in the Award Certificate, such excess amount of Purchased Bonds redeemed shall be credited towards the Commission's next semiannual installment. New Series 2006-B Bonds representing the unredeemed balance of the principal amount thereof shall be issued to the Bondholder thereof, without charge therefor. Any new Series 2006-B Bond issued pursuant to this Section 5.03 shall be executed by the Commission and authenticated by the Paying Agent and shall be in any Authorized Denominations in an aggregate principal amount equal to the unredeemed portion of such Series 2006-B Bond surrendered. The Commission may designate in writing to the Paying Agent the partial redemption of an entire subseries of Series 2006-B Bonds. Otherwise, to the extent that a particular maturity of Series 2006-B Bonds is in multiple subseries and is redeemed in part, the Paying Agent shall partially redeem Series 2006-B Bonds of such maturity on a pro-rata basis from each subseries.

Section 6.01. OPTIONAL TENDER OF SERIES 2006-B BONDS IN DAILY MODE AND WEEKLY MODE; NO OPTIONAL TENDER FOR INITIAL MODE. (a) Daily Mode. Subject to the provisions of Section 6.09, any Series 2006-B Bond (or portions thereof in an Authorized Denomination) in the Daily Mode is subject to purchase, on the demand of the Owner thereof, at a price equal to the Purchase Price on any Business Day (such purchase to be made on the Business Day upon which such demand is made), upon irrevocable notice to the Tender Agent and the Remarketing Agent by Electronic Means not later than 11:00 a.m. on the Purchase Date therefor, at their respective designated offices) which states the CUSIP number and principal amount of such Series 2006-B Bond being tendered and the Purchase Date. Such tender notice, once transmitted to the Tender Agent, shall be irrevocable with respect to the tender for which such tender notice was delivered and such tender shall occur on the Business Day specified in such Tender Notice. The Tender Agent shall, as soon as practicable, notify the Paying Agent of the principal amount of Series 2006-B Bonds being tendered. The contents of any such irrevocable telephonic tender notice shall be conclusive and binding on all parties.

(b) Weekly Mode. Subject to the provisions of Section 6.09, the Owners of Series 2006-B Bonds in a Weekly Mode may elect to have such Series 2006-B Bonds (or portions thereof in an Authorized Denomination) purchased at a price equal to the Purchase Price upon delivery of an irrevocable written notice to the Tender Agent and Remarketing Agent, by Electronic Means at their respective designated offices, not later than 4:00 p.m. on a Business Day not less than seven days before the Purchase Date specified by the Owner. Such notice shall (i) state the CUSIP number and the principal amount of such Series 2006-B Bond being tendered and (ii) state that such Series 2006-B Bond shall be purchased on the Purchase Date so specified by the Owner. The Tender Agent shall notify the Paying Agent by the close of business on the next succeeding Business Day of the receipt of any notice pursuant to this paragraph.

(c) Initial Mode. Series 2006-B Bonds are not subject to optional tender while in the Initial Mode.

Section 6.02. MANDATORY PURCHASE AT END OF COMMERCIAL PAPER MODE INTEREST PERIODS. Subject to Section 6.09, each Series 2006-B Bond in the Commercial Paper Mode shall be subject to mandatory tender for purchase on its Purchase Date at the Purchase Price. No notice of such mandatory purchase shall be given to the Owners of the Series 2006-B Bonds.

Section 6.03. MANDATORY PURCHASE ON ANY MODE CHANGE DATE. Subject to Section 6.09, the Series 2006-B Bonds to be changed to any Mode from any other Mode are subject to mandatory tender for purchase on the Mode Change Date at the Purchase Price.

Section 6.04. MANDATORY PURCHASE AT END OF TERM RATE PERIOD OR WHEN SUBJECT TO OPTIONAL REDEMPTION OF SERIES 2006-B BONDS IN FIXED RATE MODE. (a) Term Rate Mode. Subject to Section 6.09, the Series 2006-B Bonds in the Term Rate Mode are subject to mandatory tender for purchase on each Purchase Date at the Purchase Price; provided, however, that, if Series 2006-B Bonds in the Term Rate Mode with a duration of either six months or twelve months shall continue for an equal duration after the Purchase Date, the holders of such Series 2006-B Bonds may elect to continue to hold such Series 2006-B Bonds by providing notice of retention of such Series 2006-B Bonds in writing to the Tender Agent at least 7 days prior to the Purchase Date.

(b) Fixed Rate Mode. Any Series 2006-B Bond in a Fixed Rate Mode which is subject to optional redemption pursuant to Section 5.01 hereof may be subject, at the option of the Commission, to mandatory purchase in lieu of redemption on the date of redemption thereof pursuant to Section 5.01(g) hereof. Subject to receipt of a Favorable Opinion of Bond Counsel, such Series 2006-B Bonds may be converted to such Mode as the Department Representative shall direct.

Section 6.05. MANDATORY PURCHASE UPON EXPIRATION DATE, TERMINATION DATE AND SUBSTITUTION DATE OF LIQUIDITY FACILITY. Subject to Section 6.09, the Series 2006-B Bonds shall be subject to mandatory tender for purchase on: (i) The second Business Day preceding the Expiration Date of a Liquidity Facility, which second Business Day is hereinafter referred to as an "Expiration Tender Date;" (ii) The fifth calendar day (or if such day is not a Business Day, the preceding Business Day) preceding the Termination Date of a Liquidity Facility, which day is hereinafter referred to as a "Termination Tender Date," if the Liquidity Facility permits a draw thereon on the Termination Tender Date; and (iii) The Substitution Date for a Liquidity Facility.

Section 6.06. NOTICE OF MANDATORY TENDER FOR PURCHASE. (a) Expiration Tender Date. The Tender Agent shall, at least 15 calendar days prior to the Expiration Tender Date with respect to the Series 2006-B Bonds, give notice to the Owners, the Liquidity Facility Issuer, and the Remarketing Agent of the mandatory tender of the Series 2006-B Bonds on such Expiration Tender Date, if it has not theretofore received confirmation that the Expiration Date has been extended.

(b) Termination Tender Date. The Tender Agent shall, at least 15 calendar days prior to the Termination Tender Date with respect to Series 2006-B Bonds, give notice to the Owners, the Liquidity Facility Issuer, and the Remarketing Agent of the mandatory tender of the Series 2006-B Bonds on such Termination Tender Date if it has not theretofore received a notice executed by the Commission and the provider in connection with a Liquidity Facility stating that the event which resulted in the establishment of the Termination Tender Date has been cured.

(c) Substitution Date. The Tender Agent shall, at least 30 calendar days prior to any Substitution Date with respect to a Liquidity Facility relating to any Series 2006-B Bonds, give notice to the Owners, the Liquidity Facility Issuer, and the Remarketing Agent of the mandatory tender of such Series 2006-B Bonds on such Substitution Date.

(d) Purchase Date or Mode Change Date. The Tender Agent shall, at least 30 calendar days prior to any Purchase Date for Series 2006-B Bonds in a Term Rate Mode or any Mode Change Date if the Current Mode is the Term Rate Mode and at least 15 days prior to any Mode Change Date if the Current Mode is the Auction Rate Mode, the Initial Mode, the Daily Mode, the Weekly Mode or the Commercial Paper Mode, give notice to the Series 2006-B Owners and each other Notice Party of the mandatory tender for purchase of such Series 2006-B Bonds on such Purchase Date or Mode Change Date, as applicable.

(e) Notice of Mandatory Tender. Notice of any mandatory tender of Series 2006-B Bonds shall state that such Series 2006-B Bonds are to be purchased pursuant to Section 6.02, 6.03, 6.04 or 6.05 hereof, as applicable, and such notice shall be provided by the Tender Agent or caused to be provided by the Tender Agent by mailing a copy of the notice of mandatory tender by first-class mail to each Owner of Series 2006-B Bonds at the respective

addresses shown on the registration books kept by the Tender Agent. Each notice of mandatory tender for purchase shall identify the reason for the mandatory tender for purchase, and specify the Mandatory Purchase Date, the Purchase Price, the place and manner of payment, the source of funds and, except as permitted in Section 6.04(a) for the Series 2006-B Bonds in a certain Term Rate Mode, that the Owner has no right to retain such Series 2006-B Bonds and that no further interest will accrue to such Owner from and after the Mandatory Purchase Date. Each notice of mandatory tender for purchase caused by a change in the Mode applicable to the Series 2006-B Bonds shall in addition specify the conditions that have to be satisfied pursuant to Section 4.07 hereof in order for the new Mode to become effective and the consequences that the failure to satisfy any of such conditions would have. In the event a mandatory tender of Series 2006-B Bonds shall occur at or prior to the same date on which an optional tender for purchase is scheduled to occur, the terms and conditions of the applicable mandatory tender for purchase shall control. The Tender Agent shall give a copy of any notice of mandatory tender given by it to the other Notice Parties. Any notice mailed as provided in this Section 6.06 shall be conclusively presumed to have been duly given, whether or not the Owner of the Series 2006-B Bond receives the notice, and the failure of such Owner to receive any such notice shall not affect the validity of the action described in such notice. Failure by the Tender Agent to give a notice as provided in this Section 6.06 shall not affect the obligation of the Tender Agent to purchase the Series 2006-B Bonds subject to mandatory tender for purchase on the Mandatory Purchase Date.

Section 6.07. PURCHASE FUND. A Purchase Fund shall be established by the Commission in connection with the delivery to the Tender Agent of the Liquidity Facility, which Fund shall be held by the Tender Agent and may have such separate accounts as shall be established upon written direction of the Commission to the Tender Agent. Such Purchase Fund and accounts therein shall be used for the purpose of depositing moneys obtained from (a) the remarketing of Series 2006-B Bonds and (b) draws under a Liquidity Facility, and such deposited moneys shall be used solely to pay the Purchase Price of Series 2006-B Bonds or to reimburse a Liquidity Facility Issuer for a drawing on the Liquidity Facility to pay the Purchase Price of Series 2006-B Bonds. Amounts deposited in the Purchase Fund shall be held by the Tender Agent either: (i) uninvested, in the case of draws under the Liquidity Facility or (ii) or invested by the Tender Agent in Federal Securities as directed by the Commission in the case of other funds which funds shall not be commingled with any other funds held by the Tender Agent and any investment shall have a maturity so that funds are available for payment of the Purchase Price of Series 2006-B Bonds when needed but in no event shall the maturity of any investment exceed 30 days, whichever is earlier. All amounts on deposit in the Purchase Fund are pledged solely to the Owners tendering Series 2006-B Bonds and to the Liquidity Facility Issuer to repay draws under the Liquidity Facility, as applicable, and are specifically excluded from the provision of Section 2 of the Master Resolution.

Section 6.08. REMARKETING OF SERIES 2006-B BONDS; NOTICES. (a) The Remarketing Agent for the Series 2006-B Bonds shall offer for sale and use its best efforts to find purchasers for (i) all Series 2006-B Bonds or portions thereof as to which notice of tender pursuant to Section 6.01 has been given, (ii) all Series 2006-B Bonds required to be tendered for purchase and (iii) all Purchased Bonds. Series 2006-B Bonds shall be remarketed at one hundred percent (100%) of principal thereof plus accrued interest thereon. No Series 2006-B Bonds shall be remarketed for sale to the Commission or in the Daily Mode, Weekly Mode, Commercial Paper Rate Mode or Term Rate Mode of less than one year following an Expiration Tender Date or a Termination Tender Date until an Alternate Liquidity Facility has been obtained by the Commission.

(b) (i) The Remarketing Agent shall notify the Tender Agent by Electronic Means not later than 12:00 noon on the Purchase Date or Mandatory Purchase Date of the registration instructions (i.e., the names of the tendering Owners and the names, addresses and taxpayer identification numbers of the purchasers, the desired Authorized Denominations and, in the case of Series 2006-B Bonds in the Commercial Paper Mode, the Daily Mode or the Weekly Mode, any account number for payment of principal and interest furnished by a purchaser to the Remarketing Agent) with respect thereto; and

(ii) Unless otherwise permitted by DTC and the Book-Entry-Only system applicable to the Series 2006-B Bonds, the Tender Agent shall authenticate and have available for delivery to the Remarketing Agent prior to 1:30 p.m. on the Purchase Date or Mandatory Purchase Date new Series 2006-B Bonds for the respective purchasers thereof.

(c) (i) On the Business Day immediately preceding the Purchase Date or Mandatory Purchase Date, the Tender Agent shall notify the Liquidity Facility Issuer by Electronic Means of the principal amount of Series 2006-

B Bonds (other than Series 2006-B Bonds in the Daily Mode) to be tendered on the next Business Day for which, as of 4:00 p.m. on the immediately preceding Business Day, the Remarketing Agent did not have commitments for purchase pursuant to notice received from the Remarketing Agent or Tender Agent; provided, however, that the failure of the Remarketing Agent to provide such notice shall not, in and of itself, negate the obligation of the Liquidity Facility Issuer to purchase Series 2006-B Bonds in accordance with and subject to the terms and provisions of the Liquidity Facility.

(ii) The Remarketing Agent shall at or before 12:00 p.m. on the Purchase Date or Mandatory Purchase Date, as the case may be, (A) notify the Commission and the Tender Agent by Electronic Means of the amount of tendered Series 2006-B Bonds that were not successfully remarketed, and (B) confirm to the Tender Agent the transfer of the Purchase Price of remarketed Series 2006-B Bonds to the Tender Agent in immediately available funds, such confirmation to include the pertinent Fed Wire reference number.

(iii) In the event that all of the tendered Series 2006-B Bonds (and Series 2006-B Bonds that are deemed tendered) are not successfully remarketed, the Tender Agent shall at or before 12:30 p.m. on the Purchase Date or Mandatory Purchase Date, as the case may be, notify the Liquidity Facility Issuer, in accordance with the terms of the Liquidity Facility, by Electronic Means of the amount necessary to be drawn upon the Liquidity Facility to pay the Purchase Price of such tendered Series 2006-B Bonds (and Series 2006-B Bonds that are deemed tendered) (for which remarketing proceeds are not then on deposit in the Purchase Fund) not successfully remarketed. No drawings under the Liquidity Facility shall be made for Series 2006-B Bonds held by or on behalf of the Commission, or for Purchased Bonds.

(iv) The Liquidity Facility Issuer shall cause to be transferred to the Tender Agent immediately available funds by 2:30 p.m. on the Purchase Date or Mandatory Purchase Date, as the case may be, in an amount equal to the Purchase Price requested by the Tender Agent pursuant to Section 6.08(c)(iii) hereof. Immediately available funds received by the Tender Agent from the amount payable under the Liquidity Facility shall be deposited (to the extent a deposit of such funds is necessary) into an account within the Purchase Fund established under Section 6.07 hereof and designated the "Texas Transportation Commission State of Texas General Obligation Mobility Fund Bonds, Series 2006-B (Multi-Modal Bonds) Purchase Account" until applied in accordance with this Fifth Supplement. Such funds shall be held and invested as set forth in Section 6.07 hereof.

Section 6.09. RIGHTS TO TENDER AND SOURCE OF FUNDS FOR PURCHASE OF SERIES 2006-B BONDS. (a) Except for a purchase as provided in Section 6.04(b), on or before the close of business on the Purchase Date or the Mandatory Purchase Date with respect to Series 2006-B Bonds, the Tender Agent shall purchase such Series 2006-B Bonds from the Bondholders at the Purchase Price. Funds for the payment of such Purchase Price shall be derived in the order of priority indicated below:

(i) Immediately available funds transferred by the Remarketing Agent to the Tender Agent derived from the remarketing of the Series 2006-B Bonds by the Remarketing Agent; and

(ii) Immediately available funds transferred to the Tender Agent from amounts available under the Liquidity Facility. The Commission shall have no obligation to transfer any funds or monies to the Tender Agent for the payment of the Purchase Price of the Series 2006-B Bonds on a Purchase Date or a Mandatory Purchase Date, and the failure of the Commission to transfer such funds or monies shall not constitute an event of default under the Master Resolution, as supplemented by this Fifth Supplement.

(b) An Owner shall not have a right to optional tender under Section 6.01 of this Fifth Supplement so long as there exists an Immediate Termination Event or Suspension Event (both as defined in the Liquidity Facility).

Section 7.01. LIQUIDITY FACILITY. (a) Initial Liquidity Facility. The Commission has obtained the Liquidity Facility as the initial Credit Agreement for the Series 2006-B Bonds. The reimbursement obligations of the Commission under the Liquidity Facility constitutes Parity Debt under the Master Resolution secured by the Security on a parity with the Series 2006-A Bonds, the previously issued Outstanding Parity Debt and all future Parity Debt.

(b) Alternate Liquidity Facility. At any time, the Commission may obtain or provide for the delivery to the Tender Agent of an Alternate Liquidity Facility with respect to the Series 2006-B Bonds. Any such Liquidity Facility shall provide that a Termination Tender Date shall not occur unless the issuer thereof gives to the Commission, the Remarketing Agent and the Tender Agent written notice thereof at least 30 days prior to the Termination Tender Date. On or prior to the date on which an Alternate Liquidity Facility is obtained or delivered to the Tender Agent, the Commission shall furnish to the Tender Agent and the Remarketing Agent (i) a Favorable Opinion of Bond Counsel, and (ii) opinion of counsel for the Alternate Liquidity Facility Issuer as to the validity and enforceability of the Alternate Liquidity Facility and that the Alternate Liquidity Facility is exempt from registration pursuant to the Securities Act of 1933, as amended, as well as like opinion of foreign counsel if the Liquidity Facility Issuer is not incorporated or formed in the United States. As provided in Section 6.05 hereof, all Outstanding Series 2006-B Bonds will become subject to mandatory tender for purchase on the Substitution Date.

(c) Downgrade. The Commission shall obtain, in a reasonably timely manner, an Alternate Liquidity Facility with respect to the Series 2006-B Bonds if the short-term credit rating category (without regard to gradations) of the Liquidity Facility Issuer of the then existing Liquidity Facility is downgraded to a rating below the highest short-term credit rating category (without regard to gradations) from at least two (2) nationally recognized rating agencies, unless no Liquidity Facility Issuer has short-term credit ratings of the required levels at a reasonable cost as determined by the Commission acting through the Department Representative. The short-term credit rating of the provider of such Alternate Liquidity Facility shall not be below the highest short-term credit rating category (without regard to gradations) then listed by Moody's, Fitch and S&P, respectively unless no Liquidity Facility Issuer has short-term credit ratings of the required levels at a reasonable cost as determined by the Commission acting through the Department Representative.

(d) Notice. The Commission shall deliver to the Paying Agent and the Tender Agent a copy of any Alternate Liquidity Facility obtained pursuant to this Article VII on the effective date of such Alternate Liquidity Facility. In the event of an extension of the Expiration Date, the Commission shall give the Paying Agent, the Tender Agent and the Remarketing Agent a written notice of the new Expiration Date at least 16 days prior to the Expiration Tender Date. In the event of a substitution of a Liquidity Facility with an Alternate Liquidity Facility, the Commission shall give the Paying Agent, the Tender Agent and the Remarketing Agent a written notice of the Substitution Date at least 31 days prior to such Substitution Date. The Commission shall give the Paying Agent, Tender Agent and Remarketing Agent a written notice of any Termination Tender Date at least 16 days prior to such Termination Tender Date. The Commission shall give the Paying Agent and Tender Agent a written notice of its election to terminate the Liquidity Facility at least 16 days prior to the Expiration Tender Date resulting from its election to terminate such Liquidity Facility.

(e) Amount. The Liquidity Facility shall provide for draws thereon or borrowings therefrom, in the aggregate, in an amount at least equal to the Liquidity Amount for the related Series 2006-B Bonds.

Section 9.01. **PAYMENTS**. On or before each Principal Payment Date or Interest Payment Date while any of the Series 2006-B Bonds are outstanding and unpaid, commencing on the first Interest Payment Date for the Series 2006-B Bonds as provided in the Award Certificate, the Commission shall make available from the Mobility Fund to the Paying Agent/Registrar, money sufficient to pay such interest on and such principal of the Series 2006-B Bonds, including Purchased Bonds, as will accrue or mature, or be subject to mandatory redemption prior to maturity, on such principal, redemption, or interest payment date. The Paying Agent/Registrar shall cancel all paid Series 2006-B Bonds and shall furnish the Commission with an appropriate certificate of cancellation.

Section 9.02. **REBATE FUND**. A separate and special fund to be known as the Rebate Fund is hereby established by the Commission within the Mobility Fund pursuant to the requirements of Section 148(f) of the Code and the tax covenants of the Commission contained in Article X of this Fifth Supplement for the benefit of the United States of America and the Commission, as their interests may appear pursuant to this Fifth Supplement. Such amounts shall be deposited therein and withdrawn therefrom as is necessary to comply with the provisions of Article X. Any moneys held within the Rebate Fund shall not constitute Security under the Master Resolution.

Section 10.02. ALLOCATION OF, AND LIMITATION ON, EXPENDITURES FOR PROJECT. The Commission covenants to account for the expenditure of sale proceeds and investment earnings to be used for the purposes described in Section 2.01 of this Fifth Supplement on its books and records by allocating proceeds to expenditures within 18 months of the later of the date that (i) the expenditure is made, or (ii) the purposes for which the Series 2006-B Bonds are issued have been accomplished. The foregoing notwithstanding, the Commission shall not expend sale proceeds or investment earnings thereon more than 60 days after the earlier of (i) the fifth anniversary of the delivery of the Series 2006-B Bonds, or (ii) the date the Series 2006-B Bonds are retired, unless the Commission obtains a Favorable Opinion of Bond Counsel that such expenditure will not adversely affect the tax-exempt status of the Series 2006-B Bonds. For purposes hereof, the Commission shall not be obligated to comply with this covenant if it obtains an opinion of nationally recognized bond counsel to the effect that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest.

Section 10.03. DISPOSITION OF PROJECTS. The Commission covenants that the property financed with the Series 2006-B Bonds will not be sold or otherwise disposed in a transaction resulting in the receipt by the Commission of cash or other compensation, unless the Commission obtains a Favorable Opinion of Bond Counsel that such sale or other disposition will not adversely affect the tax-exempt status of the Series 2006-B Bonds. For purposes of the foregoing, the portion of the property comprising personal property and disposed in the ordinary course shall not be treated as a transaction resulting in the receipt of cash or other compensation. For purposes hereof, the Commission shall not be obligated to comply with this covenant if it obtains an opinion of nationally recognized bond counsel to the effect that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest.

Section 11.01. AMENDMENTS OR MODIFICATIONS WITHOUT CONSENT OF OWNERS OF SERIES 2006-B BONDS. Subject to the provisions of the Master Resolution, this Fifth Supplement and the rights and obligations of the Commission and of the Owners of the Outstanding Series 2006-B Bonds, including Purchased Bonds, this Fifth Supplement may be modified or amended at any time without notice to or the consent of any Owner of the Series 2006-B Bonds, including Purchased Bonds, or any other Parity Debt, solely for any one or more of the following purposes:

- (i) To add to the covenants and agreements of the Commission contained in this Fifth Supplement, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the Commission in this Fifth Supplement;
- (ii) To cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in this Fifth Supplement, 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 Fifth Supplement;
- (iii) To supplement the Security for the Series 2006-B Bonds;
- (iv) 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 Series 2006-B Bonds; or
- (v) 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 Series 2006-B Bonds, which changes or amendments do not, in the judgment of the Commission, materially adversely affect the interests of the Owners of the Outstanding Parity Debt; or
- (vi) To make any changes or amendments requested by any bond rating agency then rating or requested to rate the Series 2006-B 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 Series 2006-B Bonds; or

(vii) To make any changes or amendments that take effect after a mandatory tender of the Series 2006-B Bonds if there is delivered to the Commission a Favorable Opinion of Bond Counsel.

Prior to the effective date of any such amendment, a copy of such amendment shall be promptly furnished to the Rating Agencies, the Paying Agent, the Remarketing Agent and the Liquidity Facility Issuer.

Section 11.02. AMENDMENTS OR MODIFICATIONS WITH CONSENT OF OWNERS OF SERIES 2006-B BONDS. (a) Subject to the other provisions of this Fifth Supplement and the Master Resolution, the Owners of Outstanding Series 2006-B 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 11.01 hereof, to this Fifth Supplement 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 Series 2006-B Bonds, including Purchased Bonds, the amendment of the terms and conditions in this Fifth Supplement or in the Series 2006-B Bonds, including Purchased Bonds, so as to:

(i) Make any change in the maturity of the Outstanding Series 2006-B Bonds;

(ii) Reduce the rate of interest borne by Outstanding Series 2006-B Bonds;

(iii) Reduce the amount of the principal payable on Outstanding Series 2006-B Bonds;

(iv) Modify the terms of payment of principal of or interest on the Outstanding Series 2006-B Bonds, or impose any conditions with respect to such payment;

(v) Affect the rights of the Owners of less than all Series 2006-B Bonds then Outstanding; or

(vi) Change the minimum percentage of the Outstanding Principal Amount of Series 2006-B Bonds necessary for consent to such amendment.

Prior to the effective date of any such amendment, a copy of such amendment shall be promptly furnished to the Rating Agencies, the Paying Agent, the Remarketing Agent and the Liquidity Facility Issuer.

(b) Notice. If at any time the Commission shall desire to amend this Fifth Supplement 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 Series 2006-B Bonds. Such publication is not required, however, if the Commission gives or causes to be given such notice in writing to each Owner of Series 2006-B Bonds. A copy of such notice shall be provided in writing to each national rating agency maintaining a rating on the Series 2006-B 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 Series 2006-B 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 Series 2006-B 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 Series 2006-B 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 Series 2006-B Bonds shall be irrevocable.

(e) Ownership. For the purpose of this Section, the ownership and other matters relating to all Series 2006-B Bonds, including Purchased Bonds, registered as to ownership shall be determined from the Security Register kept by the Paying Agent/Registrar therefor. The Paying Agent Registrar may conclusively assume that such ownership continues until written notice to the contrary is served upon the Paying Agent Registrar.

Section 12.01. DISPOSITION OF SERIES 2006-B BOND PROCEEDS AND OTHER FUNDS. Proceeds from the sale of the Series 2006-B Bonds shall, promptly upon receipt thereof, be applied by the Department Representative as follows:

(i) any underwriting discount and any Credit Agreement fees for the Series 2006-B Bonds may be retained by and/or wired directly to such parties;

(ii) an amount sufficient to pay the costs of issuance of the Series 2006-B Bonds and the cost of acquiring, purchasing, constructing, improving, enlarging, and equipping the projects being financed with the proceeds of the Series 2006-B Bonds shall be deposited into a subaccount of the Bond Proceeds Account to be used for such purposes; and

(iii) Any sale proceeds of the Series 2006-B Bonds remaining after making all deposits and payments provided for above shall be deposited into the Interest and Sinking Account and applied to the payment of principal of and interest on the Series 2006-B Bonds.

Section 12.03. DEFEASANCE OF SERIES 2006-B BONDS. (a) Deemed Paid. The principal of and/or the interest and redemption premium, if any, on any Series 2006-B Bonds shall be deemed to be Defeased Debt 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 Series 2006-B 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) and payment of all obligations then due under the Liquidity Facility including all sums due in connection with Purchased Bonds 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 Series 2006-B 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 Series 2006-B Bonds or an eligible trust company or commercial bank for the payment of its services until all Defeased Debt shall have become due and payable or (3) any combination of (1) and (2). At such time as Series 2006-B Bonds shall be deemed to be a Defeased Debt hereunder, as aforesaid, such Series 2006-B Bonds and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of the

Security as provided in the Master Resolution and this Fifth Supplement, 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 Series 2006-B Bonds as aforesaid when proper notice of redemption of such Series 2006-B 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 Fifth Supplement. Any money so deposited with the Paying Agent/Registrar for such Series 2006-B 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 Series 2006-B Bonds or an eligible trust company or commercial bank pursuant to this Section which is not required for the payment of such Series 2006-B Bonds and premium, if any, and interest thereon with respect to which such money has been so deposited, shall be remitted to the Commission for deposit to the General Account of the Mobility Fund.

(c) Continuing Duty of Paying Agent and Registrar. Notwithstanding any provision of any other Section of this Fifth Supplement 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 Series 2006-B Bonds and premium, if any, and interest thereon, shall be applied to and used solely for the payment of the particular Series 2006-B 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 Debt shall have become due and payable, the Paying Agent/Registrar for such Defeased Debt shall perform the services of Paying Agent/Registrar for such Defeased Debt 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 Fifth Supplement.

(d) Amendment of this Section. Notwithstanding anything elsewhere in this Fifth Supplement, if money or Defeasance Securities have been deposited or set aside with the Paying Agent/Registrar for such Series 2006-B Bonds or an eligible trust company or commercial bank pursuant to this Section for the payment of Series 2006-B Bonds and such Series 2006-B 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 Series 2006-B 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 Debt to be paid at its maturity, the Commission retains the right under State law to later call that Defeased Debt for redemption in accordance with the provisions of this Fifth 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 the provisions of subsection (a) of this Section 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.

(f) Interest Rate. Notwithstanding anything elsewhere in this Fifth Supplement, any Series 2006-B Bonds in a mode other than the Fixed Rate Mode, shall be deemed to be paid and discharged only if the amount held under 12.03(a)(i) or (ii) above shall be sufficient to provide for the payment of such Series 2006-B Bonds assuming the highest possible interest rate on such Series 2006-B Bonds (as established in accordance with this Fifth Supplement) to the earlier of the first tender date or redemption date thereof.

Section 12.10. CREDIT AGREEMENT. (a) Pursuant to the 1992 International Swap Dealers Association, Inc. ("ISDA") Master Agreement dated as of September 28, 2006, between the Commission and Goldman Sachs Mitsui Marine Derivative Products, L.P., the 1992 ISDA Master Agreement dated as of September 28, 2006, between the Commission and JPMorgan Chase Bank, N.A. and the 1992 ISDA Master Agreement dated September 28, 2006 between the Commission and Morgan Stanley Capital Services Inc. (collectively, the "Approved Swap Agreements") and any New Swap Agreements (as defined below, and collectively with the Approved Swap Agreements, the "Swap Agreements") authorized by subsection (b) of this Section 12.10, the Department

Representative may accept and execute confirmations under one or more of the Swap Agreements when, in his or her judgment, (i) the execution of such confirmation is consistent with the Commission's Derivative Management Policy, and (ii) the transaction is expected to reduce the net interest to be paid by the Commission with respect to the Bonds or any other Parity Debt over the term of the confirmation or given the market conditions at the time, the transaction is in the best interest of the Commission. Such transactions may be entered into for the purpose of (i) locking-in a fixed rate on a variable rate debt, (ii) creating synthetic variable rate exposure for the purpose of managing debt service payments, (iii) hedging risks in the context of a particular financing plan, (iv) utilizing a forward starting swap or, to the extent permitted by law, a swaption, (v) asset/liability matching purposes or (vi) creating basis risk exposure for purposes of managing debt service payments. The Department Representative may also accept and execute confirmations to alter exposure to market risks and, when used in combination with new or outstanding Parity Debt, including the Bonds, to enhance the relationship between risk and return, achieve other policy objectives of the Commission, and given the market conditions at the time, is in the best interest of the Commission. When such confirmations are executed on behalf of the Commission, the costs thereof and the amounts payable thereunder shall be paid out of Pledged Revenues. Each Swap Agreement constitutes a "Credit Agreement" as defined in the Master Resolution and Chapter 1371, Government Code, as amended, and constitutes Parity Debt under the Master Resolution, except to the extent that a Swap 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 Parity Debt.

(b) The Department Representative is hereby authorized to enter into ISDA Master Agreements with counterparties of credit quality in accordance with the Commission's Derivative Management Policy (the "New Swap Agreements") in substantially the same form as the Approved Swap Agreements, with such changes as, in the judgment of the Department Representative, with the advice and counsel of General Counsel and Bond Counsel, are necessary to carry out the intent of the Commission as expressed in this Fifth Supplement, to receive approval of the Swap Agreements by the Attorney General of the State of Texas, or to incorporate credit rating agency comments relating to the Swap Agreements. The Department Representative is authorized to enter into such agreements and to enter into transactions in furtherance of and to carry out the intent of this Fifth Supplement.

(c) The Department Representative is hereby authorized to enter into amendments to the Swap Agreements to allow confirmations thereunder to be issued and entered into with respect to the Bonds or to any other Parity Debt and to make such other amendments as in the judgment of the Department Representative, the General Counsel and Bond Counsel are necessary to allow the Commission to achieve the benefits of the Swap Agreements in accordance with and subject to the Commission's Derivative Management Policy and this Section.

(d) In addition to the authority granted in subsections (a), (b), and (c) of this Section and in Section 2.02(b), the Department Representative is granted continuing authority to enter into the following specific transactions under one or more of the Swap Agreements upon satisfaction of the following respective conditions:

(1) Floating to fixed rate interest rate swap transactions under which the Commission would pay a fixed rate of interest and the Counterparty would pay a variable rate of interest in a maximum notional amount not to exceed the aggregate principal amount or maturity date of Parity Debt then outstanding bearing interest at a variable rate. Prior to entering into such transaction the Department Representative must deliver to the Executive Director a certificate to the effect that (i) it would be beneficial to the Commission to hedge a portion of its variable rate exposure by converting a portion of its variable rate debt to fixed rate debt, (ii) this result could be achieved by refunding the portion of variable rate debt with fixed rate debt or by creating a synthetic fixed rate through the use of a floating to fixed rate interest rate swap with a notional amount equal to the principal amount of bonds being hedged, (iii) the synthetic fixed rate is expected to result in a lower net interest cost than if fixed rate bonds were issued, and (iv) if the variable rate being paid by the Commission is computed on a basis different from the calculation of the variable rate under the swap transaction over the stated term of the Swap Agreement, the basis risk of the transaction is expected to be minimal based upon historical relationships.

(2) Fixed to floating rate interest rate swap transactions under which the Commission would pay a variable rate of interest and the Counterparty would pay a fixed rate of interest, with respect to a given principal amount of outstanding Parity Debt bearing interest at fixed rates, provided however, that the maximum cumulative notional amount of such fixed to floating interest rate swap transaction shall not exceed the aggregate principal amount or maturity date of Parity Debt then outstanding bearing interest at a fixed rate. Prior to entering into such

transaction the Department Representative must deliver to the Executive Director a certificate to the effect that converting such portion of the then outstanding fixed rate Parity Debt to a variable rate pursuant to the fixed to floating interest rate swap transaction, with the scheduled reduction in the notional amount corresponding to the maturity schedule of the Parity Debt being swapped against, would be beneficial to the Commission by lowering the anticipated net interest cost on the outstanding Parity Debt to be swapped against.

(3) Basis risk interest rate swap transactions under which the Commission would pay a variable rate of interest computed on one basis, such as Bond Market Association (“BMA”), and the Counterparty would pay a variable rate of interest computed on a different basis, such as London Inter Bank Offered Rate (“LIBOR”), with respect to a given principal amount of outstanding Parity Debt, provided however, that the maximum cumulative notional amount of such basis risk interest rate swap transactions shall not exceed 50% of the aggregate principal amount of Parity Debt then outstanding and the maximum maturity date shall not exceed the maturity of the related Parity Debt. Prior to entering into such transaction, the Department Representative must deliver to the Executive Director a certificate to the effect that by entering into the basis risk interest rate swap transaction (i) the Commission will be able to (A) achieve income from basis spread or upfront cash payments, (B) preserve call option and advance refunding capability, (C) lower net interest cost by effecting a synthetic refunding without issuing additional bonds or acquiring credit enhancement, (D) lower net interest cost by layering tax risk on top of a traditional fixed rate financing, (E) preserve liquidity capacity, or (F) avoid or mitigate the marked to market volatility of a fixed-to-floating or floating-to-fixed swap in changing interest rate environments, and (ii) the transaction is expected to lower the anticipated net interest cost on the Parity Debt to be swapped against over the stated term of the Swap Agreement.

(4) Interest rate locks, caps, floors, and collars may be executed under one or more of the Swap Agreements for the purpose of limiting the exposure of the Commission to interest rate volatility in connection with the outstanding Parity Debt or additional Parity Debt anticipated to be issued within the following thirty-six (36) months if, as set forth in a certificate of the Department Representative such transaction is anticipated to result in lower Annual Debt Service Requirements. The maximum term of the interest rate lock, cap, floor, or collar shall not exceed the maturity date of the related Parity Debt.

(e) To the extent that the Commission receives any initial payment at the time of entering into a transaction under any agreement authorized by this Section 12.10, such payments shall be applied to pay: (i) the costs of entering into such transaction, (ii) costs of transportation projects authorized by the Constitutional Provision, the Enabling Act and any other applicable provision of State law, or (iii) debt service on the related obligations or other Parity Debt. To the extent that the Commission receives any net payments as a result of assigning its rights to a termination payment or assigning its rights and obligations under a transaction under any agreement authorized by this Section 12.10, such payments shall be applied to pay: (i) debt service on the related obligations or other Parity Debt or (ii) costs of transportation projects authorized by the Constitutional Provision, the Enabling Act and any other provisions of State law.

(f) A transaction authorized by this Section 12.10 must be entered into with respect to Parity Debt meeting the requirements of Chapter 1371, Texas Government Code that has been issued and delivered prior to or simultaneously with the effective date of such transaction.

Section 12.11. REMEDIES. Pursuant to the Constitutional Provision, the State has waived sovereign immunity with respect to the enforcement of the obligations of the Commission and the State pursuant to mandamus proceedings. Any owner of the Series 2006-B Bonds, including Purchased Bonds, and the Liquidity Facility Issuer provided the Liquidity Facility Issuer is not in default under its Liquidity Facility, in the event of default in connection with any covenant contained in the Master Resolution or in this Fifth Supplement, or default in the payment of the Annual Debt Service Requirements due in connection with the Series 2006-B Bonds, including any Purchased Bonds, or other costs and expenses related thereto, may require the Commission, the Department, its officials and employees, the State and any appropriate official of the State, to carry out, respect, or enforce the covenants and obligations of the Master Resolution or this Fifth Supplement, by all legal and equitable means, including specifically, the use and filing of mandamus proceedings in any court of competent jurisdiction in Travis County, Texas against the Commission, the Department, its officials and employees, the State or any appropriate official of the State.

Section 12.13. **BROKER-DEALERS.** The Commission hereby authorizes the Department Representative to appoint and employ the services of one or more Broker-Dealers for the Series 2006-B Bonds while they are in Auction Rate Mode. Such appointment shall be in writing and signed by the Department Representative. The Department Representative is authorized to approve the form of and to execute on behalf of the Commission any agreement(s) or instruments that may be necessary to carry out the purposes of, or required by this Section 12.14. Any Broker-Dealer Agreement shall contain appropriate provisions providing for the Commission's ability to remove or replace such Broker-Dealer.

Section 12.14. **REMARKETING AGENT.** The Remarketing Agent shall be a corporation or other legal entity organized and doing business under the laws of the United States of America or of any state thereof, authorized under such laws to perform all duties imposed upon the Remarketing Agent by this Fifth Supplement, and shall be either (a) a member of the National Association of Securities Dealers, Inc. and registered as a Municipal Securities Dealer under the Securities Exchange Act of 1934, as amended, or (b) a national banking association, commercial bank or trust company. So long as the Series 2006-B Bonds are held in the Book-Entry-Only System, the Remarketing Agent must be a DTC Participant in the Book-Entry-Only System with respect to the Series 2006-B Bonds. The Remarketing Agent shall perform all of the duties imposed upon it by this Fifth Supplement and the Remarketing Agreement, but only upon the terms and conditions set forth herein and the Remarketing Agreement, including the following:

(i) set the interest rates on the Series 2006-B Bonds and perform the other duties provided for in Article VI hereof, and remarket Series 2006-B Bonds as provided in Section 6.08 hereof and in the Remarketing Agreement;

(ii) hold all moneys delivered to it hereunder for the purchase of Series 2006-B Bonds in trust solely for the benefit of the person or entity which shall have so delivered such moneys until the Series 2006-B Bonds purchased with such moneys shall have been delivered to or for the account of such person or entity;

(iii) keep such books and records as shall be consistent with customary industry practice that shall accurately reflect the transactions hereunder and to make such books and records available for inspection by the Commission and the Liquidity Facility Issuer at all reasonable times;

(iv) deliver any notices required by this Fifth Supplement to be delivered by the Remarketing Agent; and

(v) perform all other duties of the Remarketing Agent under this Fifth Supplement and the Remarketing Agreement.

The Remarketing Agent at any time may be removed or may resign and be discharged of the duties and obligations imposed upon the Remarketing Agent by this Fifth Supplement in accordance with the Remarketing Agreement.

Section 12.15. **TENDER AGENT.** The Tender Agent shall perform the duties imposed upon the Tender Agent under this Fifth Supplement and the Tender Agent Agreement, but only upon the terms and conditions set forth herein and in the Tender Agent Agreement, including the following:

(i) hold all Series 2006-B Bonds delivered to it hereunder in trust for the benefit of the respective owners which shall have so delivered such Series 2006-B Bonds until moneys representing the purchase price of such Series 2006-B Bonds shall have been delivered to or for the account of or to the order of such owners;

(ii) hold all moneys delivered to it hereunder for the purchase of Series 2006-B Bonds in trust in the Series 2006-B Bonds Purchase Fund solely for the benefit of the person or entity which shall have so delivered such moneys until the Series 2006-B Bonds purchased with such moneys shall have been delivered to or for the account of such person or entity;

(iii) keep such books and records as shall be consistent with customary industry practice that shall accurately reflect the transactions hereunder and to make such books and records available for inspection by the Commission, the Remarketing Agent and the Liquidity Facility Issuer at all reasonable times;

(iv) deliver any notices required by this Fifth Supplement to be delivered by the Tender Agent; and

(v) perform all other duties of the Tender Agent under this Fifth Supplement.

The Tender Agent, with the written consent of the Commission and the Remarketing Agent (which consents shall not be unreasonably withheld), may appoint as its agent an alternate tender agent by an instrument in writing delivered to the Commission, the Remarketing Agent and the Liquidity Facility Issuer, to act as its agent in performing any of its duties as tender agent hereunder. Any alternate tender agent appointed pursuant to the provisions of this Section shall be a bank or trust company eligible under the law of the State to accept trusts and operate in a fiduciary capacity. Any Tender Agent shall have combined capital surplus and undivided profits of at least \$50,000,000. No alternate tender agent shall accept its appointment unless at the time of such acceptance such alternate tender agent shall be qualified and eligible under this Section.

Every alternate tender agent appointed hereunder shall execute and deliver to the Paying Agent, the Commission, the Remarketing Agent and the Liquidity Facility Issuer an instrument accepting such appointment, designating its principal office and accepting the duties and obligations imposed upon it hereunder. No appointment of an alternate tender agent pursuant to this Section shall become effective until the acceptance of appointment by the alternate tender agent hereunder.

The Paying Agent shall give notice of appointment of an alternate tender agent by mailing written notice of such event, within thirty (30) days of the appointment of an alternate tender agent, to the Commission, the Liquidity Facility Issuer, the Remarketing Agent, each Rating Agency maintaining a rating on the Series 2006-B Bonds and the Owners of Series 2006-B Bonds as their names and addresses appear in the Security Register maintained by the Paying Agent. Each notice shall include the name of the alternate tender agent and the address of its principal corporate trust office or designated payment office.

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APPENDIX C

FORM OF OPINION OF BOND COUNSEL

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[An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.]

**TEXAS TRANSPORTATION COMMISSION
STATE OF TEXAS
GENERAL OBLIGATION MOBILITY FUND BONDS
SERIES 2006-B
(MULTI-MODAL BONDS)
\$150,000,000**

AS BOND COUNSEL for the Texas Transportation Commission (the "Commission") the governing body of the Texas Department of Transportation (the "Department"), we have examined into the legality of and validity of the issue of bonds described above (the "Bonds"), which bear interest from the dates and mature on the dates specified, all in accordance with the "Master Resolution Establishing the Texas Transportation Commission Mobility Fund Revenue Financing Program" (the "Master Resolution") as supplemented by the "Fifth Supplemental Resolution to the Master Resolution Establishing the Texas Transportation Commission Mobility Fund Revenue Financing Program" (the "Fifth Supplement") (the Master Resolution and the Fifth Supplement are collectively referred to as the "Resolution") adopted by minute orders of the Commission on May 4, 2005 and September 28, 2006, respectively. Terms used herein and not otherwise defined shall have the meanings given in the Resolution.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the Commission, the Master Resolution, as supplemented by the Fifth Supplement, the Award Certificate and other pertinent instruments relating to the authorization, issuance and delivery of the Bonds; and we have examined various certificates and documents executed by officers and officials of the Commission and the Department upon which certificates and documents we rely as to certain matters stated below including the Certification of the Comptroller of Public Accounts of the State of Texas. We have also examined one of the executed Bonds which we found to be in proper form and duly executed.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Commission is the governing body of the Department, an agency of the State of Texas, created and operating under the Constitution and laws of the State of Texas and is authorized to issue the Bonds under Article III,

Section 49-k, Texas Constitution, and Subchapter M of Chapter 201 of the Texas Transportation Code, as amended (the "Enabling Act"), and Chapter 1371, Texas Government Code, as amended. It is further our opinion that the Bonds have been duly authorized; that all conditions precedent to the delivery of the Bonds have been fulfilled; and that the Bonds have been duly issued and delivered, all in accordance with law, and that, except as the enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally or by principles of equity that permit the exercise of judicial discretion. Additionally, it is our opinion that except as the enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally or by principles of equity which permit the exercise of judicial discretion: (i) the Bonds are Parity Debt; (ii) the covenants and agreements in the Resolution constitute valid and binding obligations of the Commission, and the Bonds constitute valid and legally binding obligations of the Commission which, together with the Outstanding Parity Debt, and the payment obligations of the Commission pursuant to the Standby Bond Purchase Agreement dated as of December 1, 2006 among the Commission, State Street Bank and Trust Company and California Public Employees' Retirement System (the "Liquidity Facility") being issued or executed simultaneously with the issuance of the Bonds, are secured equally and ratably, on parity, by a first lien on and pledge of the Security established by the Master Resolution and the Fifth Supplement, and are payable as to principal and interest solely from the sources provided therein, including the Pledged Revenues. The Bonds and the payment obligations of the Commission under the Liquidity Facility are additionally secured by the State guarantee as authorized in the Master Resolution and exercised in the the Fifth Supplement; and (iii) the Master Resolution and Fifth Supplement are authorized by law, have been duly executed and delivered, and are valid and legally binding upon the Commission in accordance with their terms and provisions.

THE COMMISSION has reserved the right, subject to the restrictions stated in the Resolution to issue Additional Parity Debt which also may be secured by the Master Resolution on a parity with the Bonds, the Outstanding Parity Debt, and the payment obligations of the Commission under the Liquidity Facility. The Commission also has reserved the right to amend the Master Resolution and Fifth Supplement in the manner provided therein; and under some (but not all) circumstances amendments thereto must be approved by the Owners of a majority of all Parity Debt.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on certain representations, the accuracy of which we have not independently verified, and assume compliance by the Commission with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the Commission to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance 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 (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Commission as the taxpayer. We observe that the Commission has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Commission, and, in that capacity, we have been engaged by the Commission 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 from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the Commission, the State or the Texas Mobility Fund, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the Commission as to the current outstanding indebtedness of the Commission and the Comptroller of Public Accounts of the State of Texas with respect to the projected revenues of the Texas Mobility Fund. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

THE FOREGOING OPINIONS represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,

APPENDIX D

BOOK-ENTRY-ONLY SYSTEM

This Appendix D describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York ("DTC"), while the Bonds are registered in its nominee name. The information in this Appendix D concerning DTC and the book-entry-only system has been provided by DTC for use in disclosure documents such as this Official Statement. The Commission believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The Commission cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to Direct Participants (defined herein), (ii) Direct Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (iii) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the SEC, and the current procedures of DTC to be followed in dealing with Direct Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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 2.2 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, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, also subsidiaries of DTC, as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase.

Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction.

Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. 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, 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 Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices will 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 the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission 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).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commission or 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 securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the 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 to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commission or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner of Bonds shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Tender Agent with a copy to the Remarketing Agent, and will effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 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 transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Commission believes to be reliable, but the Commission takes no responsibility for the accuracy thereof.

* * * * *

APPENDIX E

AUDITED FINANCIAL STATEMENTS OF THE FUND

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Texas Mobility Fund

FINANCIAL STATEMENTS

From Inception through August 31, 2005

Prepared by:
Finance Division of the Texas Department of Transportation

Texas Mobility Fund

Financial Statements
From Inception through August 31, 2005

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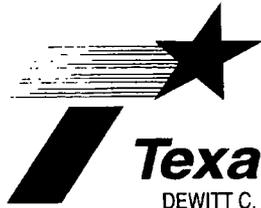
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INTRODUCTORY SECTION

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Texas Department of Transportation

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

October 28, 2005

TO: The Citizens of the State of Texas and the Creditors of the Texas Mobility Bonds

The Master Resolution, dated as of May 4, 2005, as supplemented by the First through Second Supplemental Master Resolutions (collectively, the "*Resolution*") requires the Texas Transportation Commission (the "*Commission*") to provide audited annual financial statements of the Texas Mobility Fund. Pursuant to this requirement, we hereby present to you the Financial Statements for the Texas Mobility Fund for the period from inception through August 31, 2005. This report has been prepared by the Accounting Management staff in the Finance Division of the Texas Department of Transportation.

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 reliability of all of the information presented in this financial report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the financial statements of the Texas Mobility Fund (the "*Mobility Fund*") in conformity with Generally Accepted Accounting Principles ("*GAAP*"). Because the cost of internal controls should not outweigh their benefits, the Texas Department of Transportation's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of our knowledge and belief, the financial report is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the Mobility Fund and provides disclosures that enable the reader to understand the Mobility Fund's financial condition.

Auditors from the Texas State Auditor's Office performed an independent audit of the Mobility Fund's basic financial statements for the period from inception through August 31, 2005. The auditors issued an unqualified opinion on the financial statements in accordance with GAAP.

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*, which can be found on page 13.

Profile of the Government

The Texas Department of Transportation (the "*Department*") is an agency of the State of Texas (the "*State*") created to provide a safe, effective and efficient transportation system throughout the State. The Department is managed by the Executive Director and is governed by a five-member Commission. The Department is organized into 25 districts and 27 divisions/offices and currently has an annual budget of approximately \$5.3 billion and a staff of approximately 15,000 which manage approximately \$3.7 billion in annual highway contract lettings.

Voter approval in 2001 of Proposition 15 (Texas constitutional amendment) and enactment of legislation by the 77th Legislature in 2001 created the Texas Mobility Fund. In particular, Article III, Section 49-k of the Texas Constitution (the "*Constitutional Provision*") created the Texas Mobility Fund within the treasury of the State of Texas. The creation of the Mobility Fund allows the Department to issue bonds secured by future revenue. This allows the acceleration of mobility projects throughout the state. The Mobility Fund is to be administered by the Texas Transportation 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. Moneys 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.

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. As of the end of August, 2005, the Department has issued \$1 billion in bonds and has received approval from the Bond Review Board to issue an additional \$3 billion in obligations.

Information useful in assessing the government's financial condition

Cash Management policies and practices: In 2003, the 78th Legislature dedicated 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. The following accounts have been created and established by the Commission in the Mobility Fund:

1. Mobility Fund General Account – moneys in this account may be used for any lawful purpose for which the Mobility Fund may be used pursuant to the Constitutional Provision, the Enabling Act, and other State Law.

2. Mobility Fund Portfolio Account – any Transportation Assistance Bonds acquired for the Mobility Fund are to be promptly deposited into this account and held therein until paid.
3. Mobility Fund Interest and Sinking Account – moneys in this account shall be 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.
4. Mobility Fund Bond Proceeds Account – 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 shall remain in the Bond Proceeds Account until expended to accomplish the purposes for which such Parity Debt was issued.
5. Reserve Accounts or Subaccounts – these accounts are established as required by any Supplements to the Master Resolution.

The Department is responsible for ensuring that accounts maintain the proper minimum balances as set forth in the Master Resolution and for investing in securities required to meet liquidity requirements. The investments suitable for each account have been determined using the following criteria that are detailed in the Commission's Investment Strategy: 1) safety; 2) liquidity; and 3) return on investments. For more detailed information, please see the latest Texas Transportation Commission Investment Policy.

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

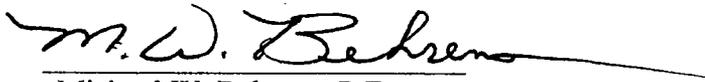
Risk Financing & Management: The Department is exposed to a wide range of risks due to the size, scope, and nature of its activities. Some of these risks include, but are not limited to, property and casualty losses, workers' compensation and health benefit claims, theft, damage of assets, etc.

The Department retains these risks, and manages them through self-insurance and safety programs, which are the responsibility of the Department's Occupational Safety Division.

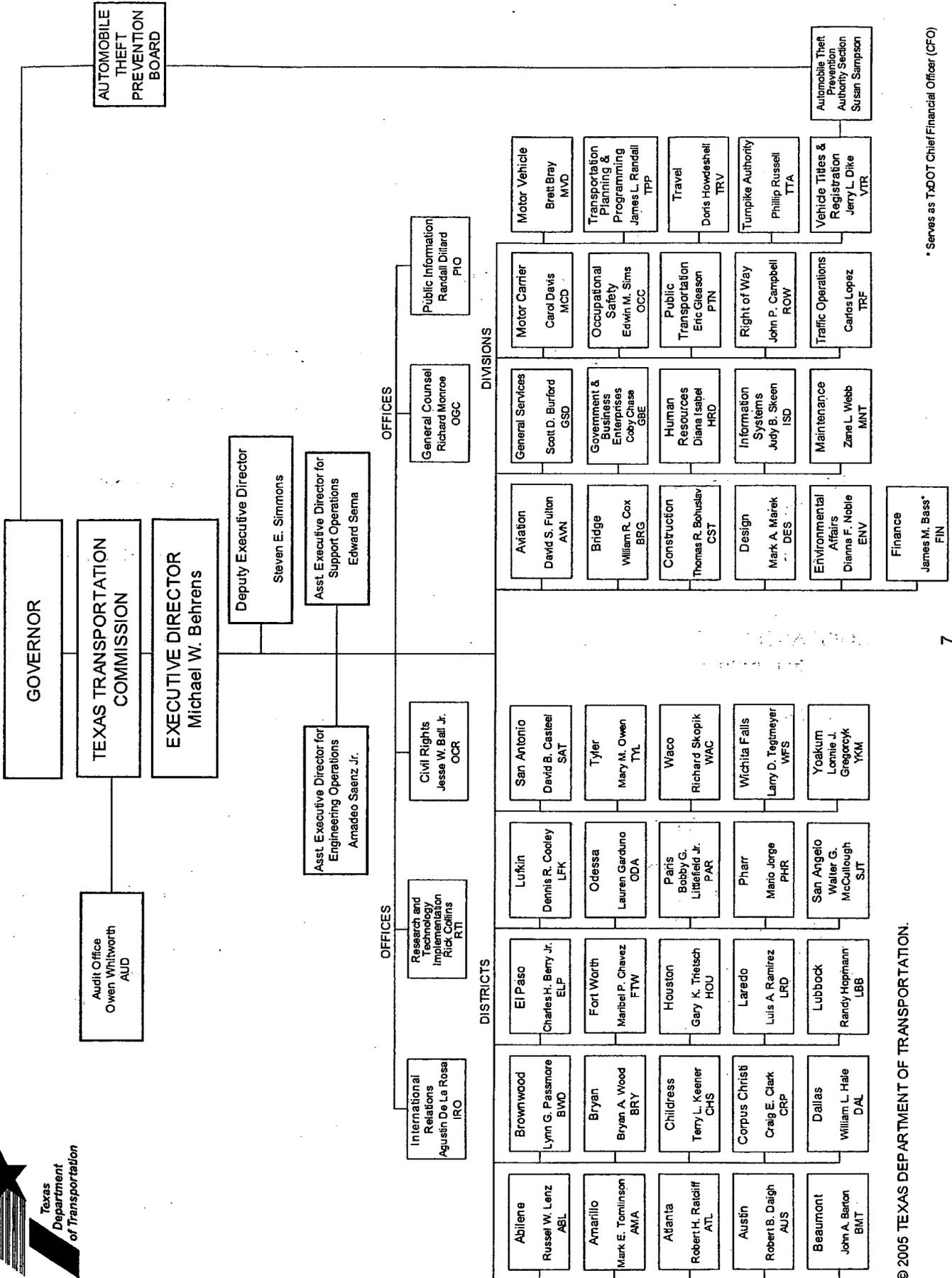
Pension Benefits and Postemployment benefits: The state has joint contributory retirement plans for virtually all its employees. The Department participates in the plans administered by the Employees Retirement System of Texas ("ERS") by making monthly payments based on actuarial calculations. Future pension costs are liabilities for the retirement system. ERS does not account for each state agency separately. Annual financial reports prepared by the system include audited financial statements and actuarial assumptions and conclusions.

Acknowledgements

Production of this report would not have been possible without the efficient and dedicated staff of the Department. We extend special appreciation to Duane Sullivan, Diana Smith, Glen Knipstein and the Finance Division for their professionalism and devotion in preparing this complex financial document.

A handwritten signature in black ink that reads "M. W. Behrens". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Michael W. Behrens, P.E.
Executive Director



* Serves as TxDOT Chief Financial Officer (CFO)

**Commission and Key Personnel
As of August 31, 2005**

TEXAS TRANSPORTATION COMMISSION

RIC WILLIAMSONChair
Weatherford

JOHN W. JOHNSONCommissioner
Houston

VACANT.....Commissioner

HOPE ANDRADE.....Commissioner
San Antonio

TED HOUGHTONCommissioner
El Paso

TEXAS DEPARTMENT OF TRANSPORTATION

MICHAEL W. BEHRENS, P.E..... Executive Director

STEVEN E. SIMMONS, P.E. Deputy Executive Director

AMADEO SAENZ, Jr., P.E..... Assist. Exec. Dir., Engineering Operations

EDWARD SERNA..... Assist. Exec. Dir., Support Operations

JAMES M. BASS Chief Financial Officer

RICHARD MONROE General Counsel

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

October 28, 2005

Members of the Texas Transportation Commission
Mr. Michael W. Behrens, P.E., Executive Director, Texas Department of Transportation

Ladies and Gentlemen:

We have audited the accompanying basic financial statements of the Texas Mobility Fund (Fund) as of August 31, 2005, and for the period from the Fund's inception on November 1, 2001, through August 31, 2005. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Notes 1(A) and 1(B), the financial statements present only the financial position of the Fund, which is a special revenue fund of the State of Texas. They do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2005, and the changes in its financial position for the reporting period then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of August 31, 2005, and the changes in financial position thereof for the reporting period then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Austin, Texas 78701

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Austin, Texas 78711-2067

Phone:
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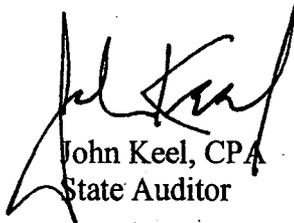
Fax:
(512) 936-9400

Internet:
www.sao.state.tx.us

Members of the Texas Transportation Commission
Mr. Michael W. Behrens, P.E., Executive Director, Texas Department of Transportation
October 28, 2005
Page 2

Our audit was conducted for the purpose of forming an opinion on the Fund's financial statements taken as a whole. We did not audit the introductory section and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of the Resolution for the Texas Mobility Fund General Obligation Bonds and other laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



John Keel, CPA
State Auditor

Management's Discussion and Analysis

As management of the Texas Department of Transportation (the "*Department*"), we offer readers of the Texas Mobility Fund (the "*Mobility Fund*") financial statements this narrative overview and analysis of its financial activities for the period from inception through August 31, 2005. These financial statements reflect the financial position of the Texas Mobility Fund. The Mobility Fund is a special revenue fund of the Department, an agency of the State of Texas. The Texas Transportation Commission, the governing body of the Department, has the authority to commit the Mobility Fund to various legal agreements. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on page 3 of this report.

Financial Highlights

- Voter approval in 2001 of Proposition 15 (Texas constitutional amendment) and enactment of legislation by the 77th Legislature in 2001 created the Mobility Fund in the state treasury. This fund permits the Texas Transportation Commission to issue bonds secured by the Texas Mobility Fund to advance highways and other public transportation projects.
- In 2003, the 78th Legislature dedicated revenue from transportation-related fees to the fund.
- In May 2005, the Texas Bond Review Board approved \$4 billion of bonds through one or more issuances from the Mobility Fund.
- As of August, 2005, the Mobility Fund has received \$116,942,325 in dedicated revenue.
- As of August, 2005, the Department has issued \$1 billion in bonds and has the authority to issue an additional \$3 billion in obligations.
- As of the August, 2005, the Department has transferred \$342,182,776 to the State Highway Fund to accelerate various transportation projects.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Mobility Fund's basic financial statements. The Mobility Fund's financial statements combine two types of financial statements into one statement. These two types of financial statements are the entity-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements and the entity-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Entity-Wide Financial Statements. The focus of the entity-wide financial statement is on the overall financial position and activities of the Mobility Fund. The Mobility Fund's entity-wide financial statements include the statement of net assets and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net assets is to attempt to report all of the assets and liabilities of the Mobility Fund. The Mobility Fund reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

Fund financial statements. The focus of fund financial statements is directed to specific activities of the Mobility Fund rather than the Mobility Fund as a whole. 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. The

Department, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activities related to the Mobility Fund are being accounted for in a special revenue fund. The accounts of the Mobility Fund are maintained in accordance with practices set forth in the provisions of the Master Resolution. These practices are modeled after generally accepted accounting principles for a special revenue fund on a modified accrual basis.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 20-29 of this report.

Entity-Wide Financial Analysis

The Mobility Fund’s overall financial position and operations for the past year is summarized as follows based on the information included in the entity-wide financial statements.

CONDENSED NET ASSETS

Restricted and other assets	\$	832,750,220
Capital Assets		0
Total Assets		\$832,750,220.00
Long-term Liabilities		(1,000,000,000)
Other Liabilities		(24,483,217)
Total Liabilities		(1,024,483,217)
Net assets:		
Restricted for: Mobility Projects		(191,732,997)
Total Net Assets	\$	<u>(191,732,997)</u>

Changes in Net Assets

The total net liabilities of the Mobility fund exceed its assets by \$191,732,997. The primary reason for this is that the Mobility Fund issued 1 billion in debt during this accounting period and transferred out \$342,182,776 to the State Highway Fund to speed up the completion of various transportation projects. The Mobility Fund has no ownership over the highway projects, which it is helping to accelerate, in the State Highway Fund, and is not responsible for the maintenance of these roadways, which will become part of the Texas State Highway System.

Even though this negative statement of net assets looks unfavorable, the purpose of the Mobility Fund is to issue debt in the short run to accelerate transportation projects and for the transportation fees dedicated to the fund to pay off this debt over a thirty-year period. As shown on the changes in condensed net assets on the following page, the Mobility Fund recognized fee revenue of about 117 million dollars during this initial period.

CONDENSED CHANGES IN NET ASSETS

Revenues	
Charges for Services-Violations, Fines & Penalties	\$ 116,942,325
Interest & Investment Income (Operating Grants and Contributions)	6,176,192
Operating G & C-Other Operating Grant Revenue	1
Total Revenues	<u>123,118,518</u>
 Expenses	
Interest on State Bonds	(11,587,486)
Other Financing Fees	(202,194)
Bond Issue Costs	(5,633,194)
Total Expenses	<u>(17,422,874)</u>
 Increase in net assets before transfers	 <u>105,695,644</u>
 Premium on Bonds Issued	 45,033,347
Discount on Bonds Issued	(279,212)
Operating Transfer Out	(342,182,776)
 Change in Net Assets	 <u>(191,732,997)</u>
Total Net Assets - beginning	0
Total Net Assets - ending	<u>\$ (191,732,997)</u>

Financial Analysis of the Mobility Fund's Fund Financial Statements

The Mobility Fund's fund financial statements show a fund balance of \$832,750,220 at the end of August 31, 2005. This is in contrast to the Entity-Wide Financial Statements which show net assets of a negative \$191,732,997. The reason why there is a difference is because the fund financial statements do not show long term debt or capital assets, and the Mobility Fund has one billion in long term debt as of the end of August 31, 2005 that is not shown on the Fund Financial Statements which are more concerned with current resources.

Debt Administration

Long-term debt. As of August 31, 2005, the Mobility Fund had total long-term debt outstanding of \$1,000,000,000.

Bonds Payable	Amount
Series 2005-A Fixed Rate Interest Bonds	900,000,000
Series 2005-B Variable Rate Interest Bonds	100,000,000
Total Long-term Debt	1,000,000,000

The issuance of long term debt increased the Mobility Fund's current financial resources. However, including the debt-related inflows among the Mobility Fund's regular revenues could distort the Mobility

Fund's revenue trends. Generally Accepted Accounting Principles ("GAAP") requires that the other financing source reported for the issuance of long term debt be equal to the face value of the debt. The Mobility fund issued the long term debt with a premium of \$45,033,347 and a discount of \$279,212. The premium and discount are reported as other financing sources and uses in accordance with GAAP.

Bond Credit Ratings

Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Ratings Services have assigned ratings of "AA+," "Aa1," and "AA," respectively, to the Fixed Rate Bonds. Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Ratings Services has assigned ratings of "AA+/"F1+," "Aa1"/"VMIG1," and "AA"/"A-1+" respectively, to the Variable Rate Bonds. 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, or either of them, 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 Finance Division, Accounting Management Section, 125 E. 11th Street, Austin, Texas, 78701-2483.

BASIC FINANCIAL STATEMENTS

EXHIBIT I

TEXAS MOBILITY FUND

Statements of Net Assets and Government Fund Balance Sheet

August 31, 2005

	Special Revenue Fund	Adjustments	Statement of Net Assets
	<u> </u>	<u> </u>	<u> </u>
Assets			
Current Assets:			
Cash and cash equivalents in State Treasury	\$ 832,750,220	\$	\$ 832,750,220
Total Current Assets	<u>832,750,220</u>		<u>832,750,220</u>
Total Assets	<u>832,750,220</u>	<u>0</u>	<u>832,750,220</u>
Liabilities			
Current Liabilities:			
Accounts Payable	1,639,328		1,639,328
Interest Payable	10,751,276		10,751,276
Due to Texas Department of Transportation, Fund 6	12,092,613		12,092,613
General Obligation Bonds Payable		24,485,000	24,485,000
Total Current Liabilities	<u>24,483,217</u>	<u>24,485,000</u>	<u>48,968,217</u>
Non-Current Liabilities:			
General Obligations Bonds Payable		975,515,000	975,515,000
Total Non-Current Liabilities		<u>975,515,000</u>	<u>975,515,000</u>
Total Liabilities	<u>24,483,217</u>	<u>1,000,000,000</u>	<u>1,024,483,217</u>
Fund Balances/Net Assets			
Fund balances:			
Unreserved	808,267,003	(1,000,000,000)	
Total Fund Balances	<u>808,267,003</u>	<u>(1,000,000,000)</u>	
Total Liabilities and Fund Balances	\$ <u>832,750,220</u>		
Net Assets:			
Restricted for: Mobility Projects		(1,000,000,000)	(191,732,997)
Total Net Assets		\$ <u>(3,000,000,000)</u>	\$ <u>(191,732,997)</u>

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

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

These financial statements reflect the financial position of the Texas Mobility Fund (the “Mobility Fund”). The Mobility Fund is a special revenue fund of the Texas Department of Transportation (the “Department”), an agency of the State of Texas. Also, the Texas Transportation Commission (the “Commission”), the governing body of the Department, has the authority to commit the Mobility Fund to various legal agreements.

The Commission

The State created the State Highway Commission on April 4, 1917, for the purpose of adopting and implementing a comprehensive system of state highways and promoting the construction of a state highway system by cooperation with counties or independently by the State Highway Commission. In 1975, the 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 to the current name, the Texas Transportation Commission. The State Legislature directed the Commission to plan and make policies for the location, construction, and maintenance of a comprehensive system of state highways and public roads.

The Commission governs the Department and is charged by statute with policy-making responsibilities. The Department is charged with the management responsibilities for implementing the policies of the Commission. The Department is managed by the Executive Director and supported by the staff. The State Legislature provided that the Commission must divide the State into no more than 25 regional districts for the purpose of the performance of the Department’s duties. There are currently 25 districts.

The Commission consists of five members appointed by the Governor with the advice and consent of the State Senate. One member is designated by the Governor as the Chairman and serves as the chief executive officer of the Commission. A person is not eligible to be a member of the Commission if the person or the person’s spouse is employed by or manages a business that is regulated by or regularly receives funds from the Department, directly or indirectly owns or controls more than ten percent (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. Members of the Commission serve six-year terms, with one to two member’s term expiring February 1 of each odd-numbered year.

The Department

The Department was created to provide a safe, effective and efficient transportation system throughout the State. The Department is governed by the five-member Commission and an executive director selected by the Commission and is an agency of the State of Texas. The Department’s operations are conducted by a central office with twenty one functional divisions, six offices, and twenty-five geographic districts in the State.

The Mobility Fund

The Texas Legislature (the “Legislature”) established the Mobility Fund pursuant to the Constitutional Provision to be administered by the Commission 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 Fund may also be used to provide participation by the Department in the

payment of a portion of the costs of constructing and providing publicly owned toll roads and other public transportation projects. Pursuant to the Enabling Act, 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 Fund. The Legislature has dedicated to the Fund certain revenues of the State.

The Commission issued \$1,000,000,000 par value of general obligation bonds on June 8, 2005. These proceeds will be used to pay, or reimburse the State Highway Fund for, the payment of the costs of (i) constructing, reconstructing, acquiring, and expanding certain State highways and providing participation by the State in the payment of part of the costs of constructing and providing certain publicly owned toll roads and other public transportation projects as described below and (ii) issuing the Bonds.

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

B. Basis of Presentation

The records of the Mobility Fund are maintained in accordance with the practices set forth in the provisions of the Resolution for the Texas Mobility Fund General Obligation Bonds. These practices are modeled after generally accepted accounting principles for a special revenue fund. The Mobility Fund is a special revenue fund within the Department.

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 the Department in conformity with accounting principles generally accepted in the United States of America.

The reporting period is from inception of the Fund through August 31, 2005. Voter approval in 2001 of Proposition 15 (Texas constitutional amendment) and enactment of legislation by the 77th Legislature in 2001 created the Texas Mobility Fund. Dedicated revenue and investment earnings began to be deposited into the Fund in March 2004.

C. Measurement Focus and Basis for Accounting

The entity-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The basis of accounting determines when revenues and expenditures are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. A special revenue fund is a type of governmental fund used to account for a government's tax-supported activities. Special revenue funds are accounted for on the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. Expenditures are generally recognized when the related fund liability is incurred.

Note 3 provides further details for the adjustments from the governmental fund presentation to the entity-wide presentation.

D. Assets and Liabilities

(1) Cash and Cash Equivalents

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

(2) Accounts Payable

Accounts Payable represents the liability for the value of assets or services received during the reporting period for which payment is pending.

(3) Bonds Payable – General Obligation Bonds

Bonds payable are reported at par value. Premiums and discounts are reported as “other financing sources and uses” in the period the bonds are sold. Payables are reported separately as either current or non-current in the statement of net assets.

E. Reservations of Fund Balance

(1) Unreserved

This amount represents the unexpended balance at year end which is available for use in subsequent years.

F. Revenues, Expenditures, Transfers, and Restatements

(1) Violations, Fines and Penalties

The Legislature has dedicated to the Fund certain revenues of the State. These dedicated revenues are those revenue sources allocated by the Legislature for the benefit of the Fund. Initially, the Fund was funded with certain revenue sources that were dedicated to the Fund until August 31, 2005. These initial sources consisted of Court Fines and a Driver License Point Surcharge. In fiscal year 2004, \$39,159,912 from dedicated revenue sources was deposited into the fund. An additional \$77,782,413 was deposited in fiscal year 2005.

On September 1, 2005, the initial revenue sources of the Fund will be redirected to the State of Texas General Revenue Fund. New sources of revenue for the Fund are being phased into the Fund. In FY 2006 the sources of revenue will be United We Stand License Plate Fees, Investment Income, and Motor Vehicle Inspection Fees. Driver Record Information Fees are added in fiscal year 2007, Driver License Fees in fiscal year 2008, and Certificate of Title Fees in fiscal year 2009.

(2) Interest and Investment Income

Cash held in the State Treasury consists of dedicated revenues and proceeds from the sale of the Series 2005 bonds. Interest and investment income earned is revenue to the Fund in the period earned.

(3) Operating Transfers Out

Operating transfers out reflect the transfer of cash to reimburse the State Highway Fund for the payment of the costs of constructing, reconstructing, acquiring, and expanding certain State highways and providing participation by the State in the payment of part of the costs of constructing and providing certain publicly owned toll roads and other public transportation projects.

NOTE 2 – CAPITAL ASSETS

The Mobility Fund does not have any capital assets. The purpose of the Mobility Fund is to provide a source of revenue to pay for the costs of constructing, reconstructing, acquiring, and expanding certain State highways and providing participation by the State in the payment of part of the costs of constructing and providing certain publicly owned toll roads and public transportation projects. The revenues accumulated in the Mobility Fund are used to pay the debt service of the Mobility Bonds. The infrastructure built with transfers from the Mobility Fund becomes part of the state highway system and a capital asset to the State Highway Fund.

NOTE 3 – ADJUSTMENT OF GOVERNMENTAL TO ENTITY-WIDE BASIS

Reconciliation of the Government Fund Balance Sheet to the Statement of Net Assets

Total Fund Balance, governmental funds	\$808,267,003
Bonds Payable in governmental activities are long term debt and, therefore, are not reported as liabilities in governmental funds	
Bonds Payable	(1,000,000,000)
Total Net Assets – governmental activities	<u>(191,732,997)</u>

Reconciliation of the Statements of Revenues, Expenditures and Changes in Fund Balance of the Governmental Funds to the Statements of Activities

Net change in fund balances – total governmental funds	\$808,267,003
Governmental funds report Bond and Note Proceeds as Other Financing Sources. However, in the Statement of Activities, these proceeds are set up as Bonds Payable Liability.	
Bond and Note Proceeds	(1,000,000,000)
Change in net assets of governmental activities	<u>(191,732,997)</u>

NOTE 4 – DEPOSITS AND INVESTMENTS

The carrying amount of deposits for the Fund was \$832,750,220 as of August 31, 2005, as reported on the Statement of Net Assets.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. All of the Fund’s deposits are held by the Comptroller in the State

Treasury. Deposits of the State of Texas are normally managed by the State Comptroller of Public Accounts (the "Comptroller"). Deposits that exceed the \$100,000 of insurance by the Federal Deposit Insurance Corporation (FDIC) must be collateralized in accordance with Comptroller policy. Collateral pledged must be equal to at least 105% of the principal amount deposited by the Department. The Comptroller has full responsibility for insuring adequate collateralization of all state deposits, including those held in local banks. On August 31, 2005, the deposits were fully collateralized with securities held by an agent of the Comptroller, in the Department's name, in accordance with the Comptroller's requirements.

The Mobility Fund had no investments at August 31, 2005.

NOTE 5 - SUMMARY OF LONG TERM LIABILITIES

Changes in Long-Term Liabilities

During the period ended August 31, 2005, the following changes occurred in liabilities.

Debt	Inception	Additions	Balance 08-31-05	Amounts Due Within One Year (Principal)
General Obligation Bonds – Texas Mobility Bonds	\$0	\$1,000,000,000	\$1,000,000,000	\$24,485,000
Total Governmental Type Activities	\$0	\$1,000,000,000	\$1,000,000,000	\$24,485,000

Debt Service Requirements

Yearly Service Requirements	GENERAL OBLIGATION BONDS		TOTAL
	Principal	Interest	
2006	24,485,000	38,393,196	62,880,202
2007	16,825,000	45,193,352	62,018,352
2008	17,480,000	44,543,658	62,023,658
2009	18,305,000	43,721,738	62,026,738
2010	19,170,000	42,860,242	62,030,242
2011-2015	110,370,000	199,852,687	310,222,687
2016-2020	137,690,000	172,669,132	310,359,132
2021-2025	169,985,000	140,534,652	310,519,652
2026-2030	214,665,000	96,044,221	310,709,221
2031-2035	271,025,000	39,814,737	310,839,737
Total Requirements	1,000,000,000	863,627,615	1,863,629,621

Fixed interest rates for the 2005-A Bonds vary from 3.9% to 5.000% depending on maturities.

The Series 2005-B Bonds have a variable interest rate. To date, the average interest rate on the Series 2005-B Bonds has been approximately 2.33%.

General Obligation Bonds Payable

Transportation Code, Chapter 201, Subchapter M. Obligations For Certain Highway And Mobility Projects, authorized the Commission to issue Texas Mobility Fund Bonds. In May 2005, the Texas Bond Review Board approved \$4,000,000,000 of bonds through one or more issuances from the Texas Mobility Fund. The Commission issued \$900,000,000 of Series 2005-A Fixed Rate Bonds and \$100,000,000 of Series 2005-B Variable Rate Bonds

issued \$900,000,000 of Series 2005-A Fixed Rate Bonds and \$100,000,000 of Series 2005-B Variable Rate Bonds on June 8, 2005 to pay, or reimburse the State Highway Fund for the payment of the costs of (i) constructing, reconstructing, acquiring, and expanding State highways and providing participation by the State in the payment of part of the costs of constructing and providing certain publicly owned toll roads and other public transportation projects and (ii) issuing the Bonds.

General information related to the bonds is summarized below:

I. Series 2005-A Fixed Rate & Term Bonds

- Issued 06-08-05
- \$900,000,000
- To pay, or reimburse the State Highway Fund for, the payment of the costs of (i) constructing, reconstructing, acquiring, and expanding State highways and providing participation by the State in the payment of part of the costs of constructing and providing certain publicly owned toll roads and other public transportation projects and (ii) issuing the Fixed Rate Bonds
- Source of revenue for debt service – Pursuant to the Enabling Act, the Commission must secure payment of Parity Debt with all or part of the revenues dedicated to and on deposit in the Fund, and may pledge the full faith and credit of the State to payments due on Parity Debt if revenues in the Fund are insufficient to make payments due on such obligations. With respect to Parity Debt, including the Bonds and the Commission’s payment obligations to the Liquidity Facility Issuer under the Liquidity Facility, pursuant to the Resolution, the Department will pledge to the Owners as security for the payment of the Bonds and the Commission’s payment obligations to the Liquidity Facility Issuer under the Liquidity Facility, a first lien interest in the “Security,” which consists of: (i) all Pledged Revenues; (ii) all Transportation Assistance Bonds in the Portfolio Account and all amounts in the General Account and the Interest and Sinking Account; (iii) any additional account or subaccount within the Fund that is subsequently established and designated as being included within the Security; (iv) all of the proceeds of the foregoing, including, without limitation, investments thereof; (v) any applicable Credit Agreement to the extent set forth in such Credit Agreement; and (vi) any applicable guarantee of the State. Funds deposited to the Mobility Fund through 8/31/2005 include revenues from Court Fines and Driver License Point Surcharge Fees. On September 1, 2005, the initial revenue sources of the Fund will be redirected to the State of Texas General Revenue Fund. New sources of revenue for the Fund are being phased into the Fund. In FY 2006 the sources of revenue will be United We Stand License Plate Fees, Investment Income, and Motor Vehicle Inspection Fees. Driver Record Information Fees are added in fiscal year 2007, Driver License Fees in fiscal year 2008, and Certificate of Title Fees in fiscal year 2009.

\$900,000,000

**State of Texas General Obligation Bonds
Mobility Fund Bonds, Series 2005-A**

MATURITY SCHEDULE - FIXED RATE SERIAL BONDS

MATURITY DATE	PRINCIPAL AMOUNT	Initial Offering Yield to Maturity
April 1, 2006	\$21,270,000	2.70%
April 1, 2007	14,115,000	2.85
April 1, 2008	14,680,000	2.93
April 1, 2009	15,415,000	3.03
April 1, 2010	16,185,000	3.13
April 1, 2011	16,995,000	3.25
April 1, 2012	17,845,000	3.37
April 1, 2013	18,735,000	3.47
April 1, 2014	19,670,000	3.56
April 1, 2015	20,655,000	3.64
April 1, 2016	21,690,000	3.71
April 1, 2017	22,775,000	3.93
April 1, 2018	23,660,000	4.00
April 1, 2019	24,605,000	4.06
April 1, 2020	25,590,000	4.12
April 1, 2021	26,640,000	4.00
April 1, 2022	27,975,000	4.03
April 1, 2023	29,370,000	4.06
April 1, 2024	30,840,000	4.09
April 1, 2025	32,385,000	4.12
April 1, 2026	34,000,000	4.15
April 1, 2027	35,700,000	4.18
April 1, 2028	37,490,000	4.20
April 1, 2029	39,360,000	4.21
April 1, 2030	41,330,000	4.22
TOTAL	\$628,975,000	
Maturity Schedule - Fixed Rate Term Bond		
April 1, 2035	\$271,025,000	4.46%

2. Series 2005-B Variable Rate Bonds

- Issued 06-08-05
- \$100,000,000
- To pay, or reimburse the State Highway Fund for, the payment of the costs of (i) constructing, reconstructing, acquiring, and expanding State highways and providing participation by the State in the payment of part of the costs of constructing and providing certain publicly owned toll roads and other public transportation projects and (ii) issuing the Fixed Rate Bonds
- Source of revenue for debt service – Pursuant to the Enabling Act, the Commission must secure payment of Parity Debt with all or part of the revenues dedicated to and on deposit in the Fund, and may pledge the full faith and credit of the State to payments due on Parity Debt if revenues in the Fund are insufficient to make payments due on such obligations. With respect to Parity Debt, including the Bonds and the Commission’s payment obligations to the Liquidity Facility Issuer under the Liquidity Facility, pursuant to the Resolution, the Department will pledge to the Owners as security for the payment of the Bonds and the Commission’s payment obligations to the Liquidity Facility Issuer under the Liquidity Facility, a first lien interest in the “Security,” which consists of: (i) all Pledged Revenues; (ii) all Transportation Assistance Bonds in the Portfolio Account and all amounts in the General Account and the Interest and Sinking Account; (iii) any additional account or subaccount within the Fund that is subsequently established and designated as being included within the Security; (iv) all of the proceeds of the foregoing, including, without limitation, investments thereof; (v) any applicable Credit Agreement to the extent set forth in such Credit Agreement; and (vi) any applicable guarantee of the State. Funds deposited to the Mobility Fund through 8/31/2005 include revenues from Court Fines and Driver License Point Surcharge Fees. Beginning 9/1/2005 these initial sources of revenue are being replaced by United We Stand License Plate Fees, Investment Income, and Motor Vehicle Inspection Fees. Other sources of revenue will be phased into the fund as follows: Driver Record Information Fees (FY2007), Driver License Fees (FY 2008), and Certificate of Title Fees (FY 2009).

\$100,000,000		
State of Texas General Obligation Bonds		
Mobility Fund Bonds, Series 2005-B		
Maturity Schedule – Variable Rate Bonds		
MATURITY DATE	PRINCIPAL AMOUNT	INTEREST RATE
April 1, 2030	\$100,000,000	Weekly Rate
TOTAL	\$100,000,000	

The bonds and the Commission’s payment obligations to the Liquidity Facility Issuer under the Liquidity Facility are general obligations of the State, and as provided in the Enabling Act and the Resolution, the full faith and credit of the state is pledged for the payment of the bonds and the Commission’s payment obligations to the Liquidity Facility Issuer under the Liquidity Facility in the event that the revenue and money dedicated to and on deposit in the Fund are insufficient.

The Commission is subject to various covenants imposed by the various bond Resolutions. Management believes the Commission was in compliance with all significant covenants as of August 31, 2005.

Redemption

Optional Redemption

Daily Mode or Weekly Mode. Variable Rate Bonds in the Daily Mode or Weekly Mode will be subject to redemption at the option of the Commission in whole or in part, on any interest payment date, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date.

Mandatory Redemption

The Variable Rate Bonds will be subject to redemption prior to maturity on April 1 of such years and in such principal amounts as set forth in the following schedule:

Date	Principal Amount
2006	\$3,215,000
2007	2,710,000
2008	2,800,000
2009	2,890,000
2010	2,985,000
2011	3,085,000
2012	3,185,000
2013	3,290,000
2014	3,400,000
2015	3,510,000
2016	3,625,000
2017	3,745,000
2018	3,870,000
2019	4,000,000
2020	4,130,000
2021	4,265,000
2022	4,405,000
2023	4,550,000
2024	4,700,000
2025	4,855,000
2026	5,015,000
2027	5,180,000
2028	5,350,000
2029	5,530,000
2030	5,710,000

Redemption in Part

In the event of redemption of less than all the Variable Rate Bonds, the Variable Rate Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar by lot in such manner as the Paying Agent/Registrar in its discretion may determine; provided, however, that the Variable Rate Bonds to be redeemed will be in

authorized denominations; and provided, further, that any Variable Rate Bonds which are Purchased Bonds will be redeemed prior to any other Variable Rate Bonds.

Redemption of Purchased Bonds

Purchased Bonds are subject to redemption, at the option of the Commission in whole or in part on any business day, at a redemption price equal to the principal amount of the Purchased Bonds to be redeemed plus accrued interest thereon to the redemption date. Purchased Bonds are also subject to mandatory redemption in accordance with the terms of the Liquidity Facility. If less than all of the Variable Rate Bonds are to be redeemed, the Commission is required to redeem all Purchased Bonds prior to the redemption of any other Variable Rate Bonds.

NOTE 6 – DUE TO/FROM OTHER FUNDS (the “DEPARTMENT”)

As of August 31, 2005, the Mobility Fund reports a Due To the Department in the amount of \$12,092,613.

NOTE 7- EMPLOYEES' RETIREMENT PLANS

The State has joint contributory retirement plans for virtually all its employees. The Department participates in the plans administered by the Employees Retirement System of Texas (“ERS”) by making monthly payments based on actuarial calculations. Future pension costs are the liabilities of the ERS. ERS does not account for each state agency separately. Annual financial reports prepared by the ERS include audited financial statements and actuarial assumptions and conclusions. The Mobility Fund does not have any employees. The Department provides all accounting and administrative services. The Mobility Fund does not have any contributions to the plan.

NOTE 8 – CONTINUANCE SUBJECT TO REVIEW

The Department is currently subject to a continuance review. Under the Texas Sunset Act, the Department will be abolished effective September 1, 2009, unless continued in existence by the 81st Legislature as provided by the Act. If abolished, the Department may continue until September 1, 2010 to close out its operations. In the event that the Department is abolished pursuant to the Texas Sunset Act or other law, Section 325.017(f), Texas Government Code, 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 - RISK FINANCING & RELATED INSURANCE

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

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

The Department retains these risks, and manages them through self-insurance and safety programs, which are the responsibility of the Department’s Occupational Safety Division.

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