# CENTRAL TEXAS TURNPIKE SYSTEM

## Annual Financial Report

For the Fiscal Year Ended August 31, 2022

(With Independent Auditor's Report)

Texas Department of Transportation

*[Inside of Cover]*

# Central Texas Turnpike System

An Enterprise Fund of
the Texas Department of Transportation

# Annual Financial Report
# For the Fiscal Year Ended
# August 31, 2022

Prepared by:
Financial Management Division of the Texas Department of Transportation

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# CENTRAL TEXAS TURNPIKE SYSTEM

**Annual Financial Report**
**For the Fiscal Year Ended August 31, 2022**

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Section One

# Introductory Section

Texas Department of Transportation

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

December 15, 2022

To: The Citizens of the State of Texas and the Creditors of the Central Texas Turnpike System

The audited annual financial statements of the Central Texas Turnpike System (CTTS) for the year ended Aug. 31, 2022 are enclosed in accordance with the Indenture of Trust dated Jul. 15, 2002. The Indenture of Trust, as supplemented by the first through eighth Supplemental Indentures (Indenture), requires the preparation and submission of audited annual financial statements.

An external audit firm, Crowe LLP, performed an independent audit, in accordance with generally accepted auditing standards, of CTTS' basic financial statements for the year ended Aug. 31, 2022. The audit opinion is presented in this report preceding the financial statements. This report was prepared by the accounting staff in the Financial Management Division of the Texas Department of Transportation (TxDOT). CTTS' internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

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

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

## Profile of the Government

This report includes financial statements for CTTS, a fund within TxDOT's reporting entity. TxDOT is an agency of the state of Texas. TxDOT is managed by an executive director and is governed by the five-member Texas Transportation Commission. All members of the Commission are appointed by the Governor. The Commission is authorized to issue general obligation and revenue bonds per statutory and constitutional provisions.

Texas Transportation Code grants the Commission the authority to study, plan, design, construct, finance, operate and maintain turnpikes in all 254 counties of the state as a part of the state's highway system. The Commission can issue turnpike revenue bonds to pay all or a part of the cost of a turnpike project, to enter into comprehensive development agreements to execute projects and to acquire right of way through quick-take procedures. Such revenue bonds were issued to fund a portion of the costs of constructing the CTTS roadways.

December 15,2022

## Budgetary Controls

Annual budgets are approved by the Texas Transportation Commission in accordance with the indenture and reviewed by the general engineering consultants. These budgets are entered and maintained in the statewide accounting system as collected revenues or reimbursements. Controls are maintained at the agency level, with additional control at the fund and appropriation level to ensure expenditures do not exceed collected amounts.

## Information Useful in Assessing CTTS' Financial Condition

TxDOT and the Trustee are responsible for ensuring that funds maintain the proper minimum balances as set forth in the Indenture and for investing in securities required to meet liquidity requirements. The criteria for suitable investments for each fund type are detailed in the Commission's investment strategies.

All monies in the revenue fund, debt service funds, rate stabilization fund and construction fund – capital contributions account are invested in money market funds, government securities and investment pools that are in compliance with the Commission's investment policy.

The debt service reserve fund is invested in an investment pool and a repurchase agreement collateralized by U.S. Treasury and Agency Securities.

## Acknowledgements

The preparation of the report requires the efforts of individuals throughout TxDOT, including the dedicated efforts of the management and staff of the TxDOT's Financial Reports Section and other sections of the Financial Management Division, the Toll Operations Division, and the Project, Finance, Debt and Strategic Contracts Division. I sincerely appreciate the efforts of all these individuals who continue to help make TxDOT a leader in quality financial reporting.

Sincerely,

DocuSigned by:
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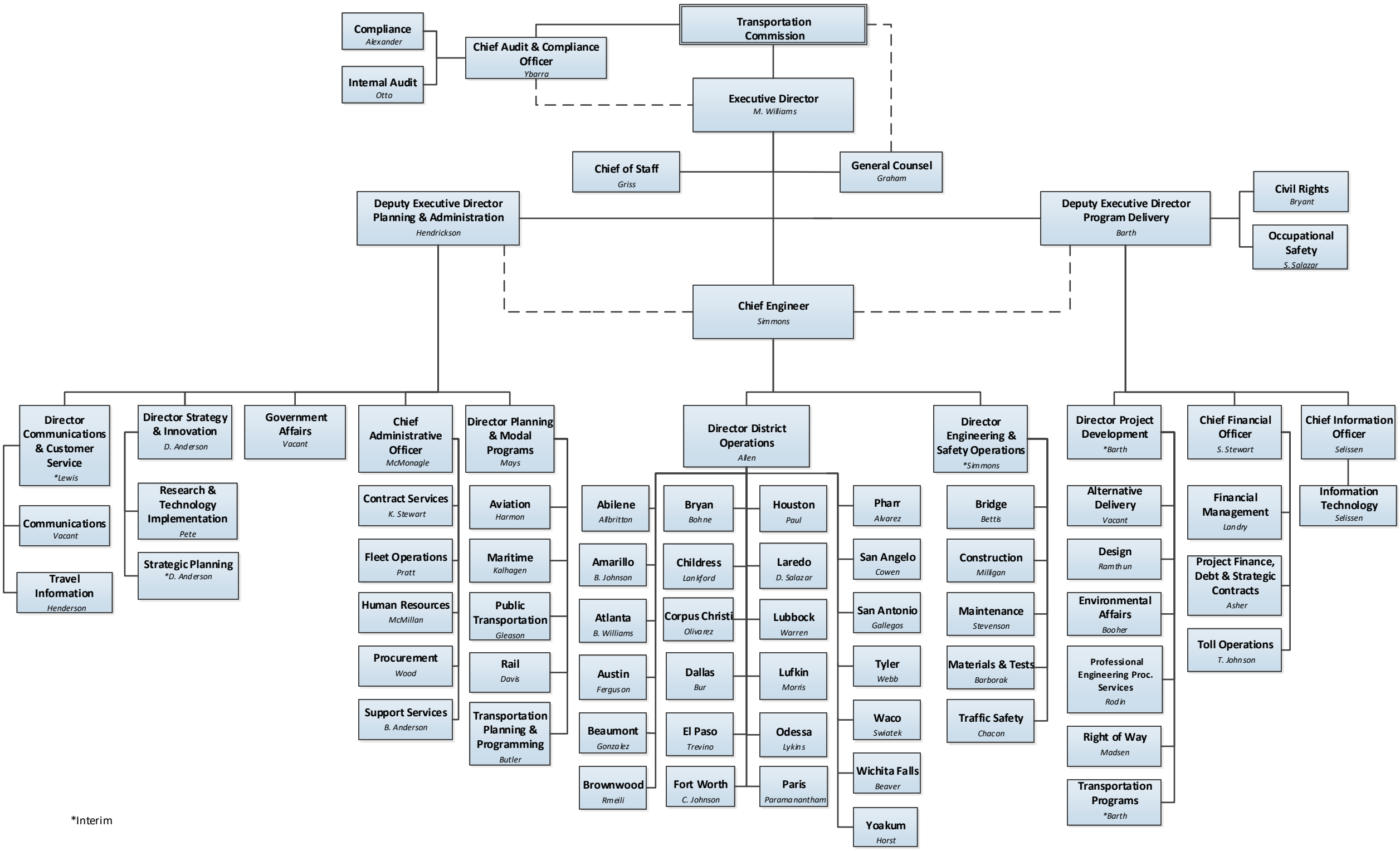
Marc D. Williams, P.E.
Executive Director

# Texas Department of Transportation
# Organization Chart as of August 31, 2022




*Interim

# Texas Department of Transportation
# Commission and Key Personnel
# as of August 31, 2022

## TEXAS TRANSPORTATION COMMISSION

**J. Bruce Bugg, Jr**
Chairman
San Antonio

**Alvin New**
Commissioner
San Angelo

**Laura Ryan**
Commissioner
Houston

**Robert C. Vaughn**
Commissioner
Dallas

## TxDOT ADMINISTRATION

The following is a list of administrators who oversee the Texas Department of Transportation. All TxDOT districts, divisions and offices report to a member of the administration, headquartered in Austin.

**Marc Williams**
Executive Director

**Brandye Hendrickson**
Deputy Executive Director for Planning and Administration

**Brian Barth**
Deputy Executive Director for Program Delivery

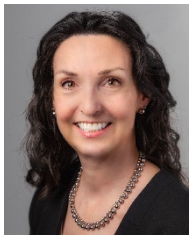
**Richard McMonagle**
Chief Administrative Officer

**Benito Ybarra**
Chief Audit and Compliance Officer

**Lance W. Simmons**
Chief Engineer

**Stephen Stewart**
Chief Financial Officer

**Anh Selissen**
Chief Information Officer



**Mary Anne Griss**
Chief of Staff

**Raquelle Lewis**
Interim Director of Communications and Public Affairs

**Darran Anderson**
Director of Strategy and Innovation

**Jeff Graham**
General Counsel

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Section Two

# Financial Section

Crowe LLP
Independent Member Crowe Global

# INDEPENDENT AUDITOR'S REPORT

*Members of the Texas Transportation Commission*
*State of Texas*

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the financial statements of the Central Texas Turnpike System (System), an enterprise fund of the Texas Department of Transportation (TxDOT), an agency of the State of Texas, as of and for the year ended August 31, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the System, of TxDOT, as of August 31, 2022, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of TxDOT, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Emphasis of Matter*

As discussed in Note 1, the financial statements present only the System and do not purport to, and do not, present fairly the financial position of TxDOT or the State of Texas, as of August 31, 2022, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### *Responsibilities of Management for the Financial Statements*

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

### *Auditor's Responsibility for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the TxDOT's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 11-14 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2022, on our consideration of TxDOT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the TxDOT's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TxDOT's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

Dallas, Texas
December 15, 2022

Section Two (Continued)

# Management's Discussion & Analysis (Unaudited)

# Management's Discussion and Analysis

As management of the Texas Department of Transportation (TxDOT), we offer readers of the Central Texas Turnpike System's (CTTS) financial statements this narrative overview and analysis of its financial activities for the year ended Aug. 31, 2022, with selected comparative information for the year ended Aug. 31, 2021. The information presented should be read in conjunction with our letter of transmittal, the financial statements and the accompanying notes to the financial statements.

## Highlights

On November 17, 2020, TxDOT began transition activities from Conduent's Vector Back Office System to the new TxDOT Back Office System. This transition has required interruptions to customer service activities including delayed reconciliation of electronic toll collections ("ETC") transactions through the new TxDOT Back Office System, statement processing, pay by mail ("PBM") billing and escalations of past due transactions. All delays in the reconciliation of transactions attributable to the transition have been substantially resolved. A portion of the revenues relating to the PBM toll transactions that occurred on the System during Fiscal Year 2022 may not be recognized due to certain limitations relating to the transition to the new TxDOT Back Office System.

Citing continued challenges with an upgraded Back Office System delivered by the back office services provider (IBM), TxDOT terminated its remaining contract with IBM in August 2021, effective November 29, 2021. TxDOT has obtained new interim technology providers to assist with stabilizing and improving TxDOT's Back Office System to manage customer data and toll transactions. TxDOT is in the process of evaluating alternative service provider options that would assume responsibilities from the interim team.

During fiscal 2022, CTTS generated $213.1 million in toll revenues (net of allowance), an increase of $62.2 million or 41.2 percent over fiscal 2021. CTTS roadways recorded 174.5 million transactions in fiscal 2022, an increase of 21.4 percent over fiscal 2021.

CTTS' indenture requires certain operating, maintenance, and reserve maintenance funds to be held separate and apart from its other funds and accounts. As of Aug. 31, 2022, these funds held reserves of $96.2 million. These balances will enable CTTS to pay directly for budgeted expenses throughout the coming year.

The assets and deferred outflows of CTTS exceeded its liabilities and deferred inflows by $186.0 million as of Aug. 31, 2022, a decrease of $87.5 million or 32.0 percent from fiscal 2021. The majority of the decrease is attributable to depreciation of capital assets of $65.6 million and accretion of total liabilities of $33.3 million, offset by an increase in operating income of $20.2 million.

## Overview of the Financial Statements

The annual financial report consists of two parts: management's discussion and analysis (this section) and the basic financial statements with their accompanying notes.

### Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. TxDOT, like other states and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Proprietary funds are used to account for a government's business-type activities. The activities related to CTTS are accounted for in an enterprise fund, which is a type of proprietary fund used to report activities in which a fee is charged to external users for goods and services.

## Financial Analysis

The overall financial position and operations of CTTS for the past two years is summarized as follows.

**Statement of Net Position**
August 31, 2022 and 2021 (Amounts in Thousands)

| | 2022 | 2021 |
|---|---|---|
| **ASSETS** | | |
| Assets Other Than Capital Assets | $ 612,202 | $ 625,112 |
| Capital Assets | 2,554,860 | 2,615,214 |
| Total Assets | 3,167,062 | 3,240,326 |
| **DEFERRED OUTFLOWS OF RESOURCES** | 29,600 | 31,998 |
| **LIABILITIES** | | |
| Current Liabilities | 143,345 | 97,741 |
| Noncurrent Liabilities | 2,842,300 | 2,874,711 |
| Total Liabilities | 2,985,645 | 2,972,452 |
| **DEFERRED INFLOWS OF RESOURCES** | 25,067 | 26,460 |
| **NET POSITION** | | |
| Net Investment in Capital Assets | 465,225 | 499,200 |
| Restricted for Debt Service | 186,436 | 215,352 |
| Restricted for Operations and Maintenance | 37,277 | 90,084 |
| Unrestricted | (502,988) | (531,224) |
| Total Net Position | $ 185,950 | $ 273,412 |

**Changes in Net Position**
For the Fiscal Years Ended August 31, 2022 and 2021 (Amounts in Thousands)

| | 2022 | 2021 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Operating Revenues | $ 256,524 | $ 181,870 |
| Total Operating Revenue | 256,524 | 181,870 |
| **OPERATING EXPENSES** | | |
| Operating Expenses | 230,298 | 175,888 |
| Total Operating Expenses | 230,298 | 175,888 |
| Operating Income | 26,226 | 5,982 |
| Total Nonoperating Revenues (Expenses) | (113,849) | (109,753) |
| Income (Loss) before Transfer | (87,623) | (103,771) |
| Capital Contribution | 322 | 2,444 |
| Transfers In | | 352 |
| Transfers Out | (161) | |
| Total Capital Contribution and Transfers | 161 | 2,796 |
| Change in Net Position | (87,462) | (100,975) |
| Net Position – Beginning | 273,412 | 374,387 |
| Net Position – Ending | $ 185,950 | $ 273,412 |

Net position may serve over time as a useful indicator of CTTS' financial position. Net position will decline as additional noncurrent liabilities are accrued via principal accretion on outstanding CTTS debt and assets are depreciated. Debt service was $139.2 million in fiscal 2022 and is scheduled to increase to $148.3 million in fiscal 2023. Operations and maintenance expense (excluding depreciation) is estimated to decrease approximately $32.3 million.

## Capital Assets and Debt Administration

### Capital Assets

As of Aug. 31, 2022, CTTS had approximately $2.6 billion in net capital assets.

**Capital Assets-Net of Depreciation and Amortization**
August 31, 2022 and 2021 (Amounts in Thousands)

| | 2022 | 2021 |
|---|---|---|
| Land | $ 668,831 | $ 668,831 |
| Construction in Progress | 100,138 | 128,845 |
| Land Use Rights | 19,466 | 19,466 |
| Software | 39,999 | 53,417 |
| Infrastructure-Roadways and Bridges | 1,723,989 | 1,741,857 |
| Buildings | 2,437 | 2,798 |
| Total Capital Assets | $ 2,554,860 | $ 2,615,214 |

The decrease in net capital assets of $60.3 million mostly reflects depreciation of $65.6 million net of additions of $7.5 million and an impairment loss of $2.5 million. The additions relate to ongoing infrastructure projects.

The major infrastructure projects in progress on the CTTS system are construction of a direct connector from eastbound US 290 to southbound SH 130, and an additional toll lane in each direction on SH130 segments 2 and 3. See Note 2 for more information.

### Debt Administration

The Commission has issued revenue bonds backed by the pledged revenues and restricted assets specified in the bond resolutions. As of Aug. 31, 2022, CTTS had approximately $2.9 billion of outstanding revenue bond debt. See Notes 4 & 5 for more information.

**Outstanding Debt Obligations**
August 31, 2022 and 2021 (Amounts in Thousands)

| | 2022 | 2021 |
|---|---|---|
| Revenue Bonds Payable | $ 2,683,020 | $ 2,931,483 |
| Revenue Bonds Payable - Direct Placements | 225,000 | |
| Total Outstanding Debt | $ 2,908,020 | $ 2,931,483 |

**Bond Credit Ratings**

The outstanding bonds of CTTS were rated by each of the three major Nationally Recognized Statistical Rating Organizations. As of Aug. 31, 2022, the CTTS bonds carried the following ratings:

**CTTS Credit Ratings as of August 31, 2022**
(Amounts in Thousands)

| Bond Description | Net Outstanding | Moody's | S & P | Fitch |
|---|---|---|---|---|
| First Tier Revenue Bonds Series 2002-A | | | | |
| Non-Callable Capital Appreciation Bonds | $ 468,126 | A3 | A | A+ |
| First Tier Revenue Refunding Bonds, Series 2012-A | 130,024 | A3 | A | A+ |
| First Tier Revenue Refunding Bonds, Series 2015-B | 216,441 | A3 | A | A+ |
| First Tier Revenue Refunding Bonds, Series 2015-B | | | | |
| Capital Appreciation Bonds | 128,504 | A3 | A | A+ |
| Second Tier Revenue Refunding Bonds, Series 2015-C | 1,245,850 | Baa1 | A- | A- |
| First Tier Revenue Refunding Bonds, Series 2020-A | 214,770 | A3 | A | A+ |
| First Tier Revenue Refunding Bonds, Series 2020-B | 225,000 | A3 | A | A+ |
| First Tier Revenue Refunding Bonds, Series 2020-C | 279,305 | A3 | A | A+ |
| Total | $ 2,908,020 | | | |

An explanation of the significance of each rating may be obtained from the company furnishing the rating. The ratings reflect only the views of such companies at the time such ratings are given, and the Commission makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such companies if, in the judgment of such companies, circumstances so warrant.

**Requests for Information**

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

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

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Section Two (Continued)

# Basic Financial Statements

## Central Texas Turnpike System
## Statement of Net Position
August 31, 2022 (Amounts in Thousands)

| | | |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and Cash Equivalents: | | |
| Cash and Cash Equivalents | $ | 96,714 |
| Restricted: | | |
| Cash and Cash Equivalents | | 385,290 |
| Receivables: | | |
| Accounts Receivable | | 19,962 |
| Interest and Dividends | | 227 |
| Due from Other Funds (Note 7) | | 25,545 |
| Consumable Inventory | | 475 |
| Total Current Assets | | 528,213 |
| Noncurrent Assets: | | |
| Restricted: | | |
| Investments | | 37,454 |
| Investments | | 46,535 |
| Capital Assets: | | |
| Non-Depreciable Capital Assets (Note 2) | | 788,435 |
| Depreciable Capital Assets, Net (Note 2) | | 1,766,425 |
| Total Noncurrent Assets | | 2,638,849 |
| Total Assets | | 3,167,062 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Deferred Outflows of Resources | | |
| Loss on Bond Refunding | | 29,600 |
| Total Deferred Outflows of Resources | | 29,600 |
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Payables: | | |
| Accounts | | 43,060 |
| Interest | | 3,940 |
| Due to Other Funds (Note 7) | | 15,179 |
| Unearned Revenues | | 15,446 |
| Revenue Bonds Payable (Notes 4, 5) | | 65,720 |
| Total Current Liabilities | | 143,345 |
| Noncurrent Liabilities: | | |
| Revenue Bonds Payable (Notes 4, 5) | | 2,842,300 |
| Total Noncurrent Liabilities | | 2,842,300 |
| Total Liabilities | | 2,985,645 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Deferred Inflows of Resources | | |
| Gain on Bond Refunding | | 25,067 |
| Total Deferred Inflows of Resources | | 25,067 |
| **NET POSITION** | | |
| Net Investment in Capital Assets | | 465,225 |
| Restricted for: | | |
| Transportation - Operations and Maintenance | | 37,277 |
| Debt Service | | 186,436 |
| Unrestricted | | (502,988) |
| Total Net Position | $ | 185,950 |

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

## Central Texas Turnpike System
## Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended August 31, 2022 (Amounts in Thousands)

| | | |
|---|---|---|
| **OPERATING REVENUES** | | |
| Toll Revenue - Pledged | $ | 227,318 |
| Discounts and Allowances | | (14,182) |
| Fee Revenue - Pledged | | 25,086 |
| Other Sales Goods & Services-Pledged | | 18,302 |
| Total Operating Revenues | | 256,524 |
| **OPERATING EXPENSES** | | |
| Salaries | | 2,934 |
| Professional Fees and Services | | 52,653 |
| Travel | | 2 |
| Materials and Supplies | | 2,474 |
| Communication and Utilities | | 816 |
| Repairs and Maintenance | | 22,385 |
| Rentals and Leases | | 1,762 |
| Contracted Services | | 55,224 |
| Advertising | | 1,333 |
| Settlements | | 13,542 |
| Impairment Loss | | 2,553 |
| Depreciation and Amortization | | 65,626 |
| Interest Expense | | 2 |
| Other Operating Expenses | | 8,992 |
| Total Operating Expenses | | 230,298 |
| Operating Income (Loss) | | 26,226 |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Lease Revenue | | 15 |
| Interest and Investment Income | | 8,754 |
| Net Decrease in Fair Value of Investments | | (5,969) |
| Amortization | | 11,422 |
| Interest Expense | | (127,940) |
| Bond Issuance Expenses | | (93) |
| Other Financing Fees | | (38) |
| Total Nonoperating Revenues (Expenses) | | (113,849) |
| (Loss) before Capital Contributions and Transfers | | (87,623) |
| **CAPITAL CONTRIBUTIONS AND TRANSFERS** | | |
| Capital Contributions | | 322 |
| Transfers Out (Note 7) | | (161) |
| Total Capital Contributions and Transfers | | 161 |
| Change in Net Position | | (87,462) |
| Net Position, September 1, 2021 | | 273,412 |
| Net Position, August 31, 2022 | $ | 185,950 |

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

**Central Texas Turnpike System**

**Statement of Cash Flows**

For the Fiscal Year Ended August 31, 2022 (Amounts in Thousands)

| | | |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Proceeds from Customers | $ | 267,575 |
| Payments to Suppliers for Goods and Services | | (137,887) |
| Net Cash Provided by Operating Activities | | 129,688 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Proceeds from Lease Revenue | | 15 |
| Payments for Purchase of Capital Assets | | (9,332) |
| Payments for Principal on Debt | | (45,350) |
| Payments of Interest on Debt | | (93,586) |
| Payments for Interfund Services | | (131) |
| Net Cash (Used) By Capital And Related Financing Activities | | (148,384) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from Sales of Investments | | 114,999 |
| Proceeds from Interest and Investment Income | | 8,902 |
| Payments to Acquire Investments | | (10,000) |
| Net Cash Provided By Investing activities | | 113,901 |
| Net Increase In Cash And Cash Equivalents | | 95,205 |
| Cash And Cash Equivalents - Beginning | | 386,799 |
| Cash And Cash Equivalents - Ending | $ | 482,004 |

**Central Texas Turnpike System**

**Statement of Cash Flows (concluded)**

For the Fiscal Year Ended August 31, 2022 (Amounts in Thousands)

| | | |
|---|---|---|
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | |
| Operating Income | $ | 26,226 |
| Adjustments: | | |
| Depreciation | | 65,626 |
| Impairment loss | | 2,553 |
| (Increase) in Receivables | | (11,888) |
| Decrease in Inventories | | 135 |
| Increase in Payables | | 26,266 |
| (Decrease) in Due to Other Funds | | (1,727) |
| Decrease in Due from Other Funds | | 22,497 |
| Total Adjustments | | 103,462 |
| Net Cash Provided by Operating Activities | $ | 129,688 |

| | |
|---|---|
| NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES: | |
| Transfer in of capital assets from other fund | 322 |
| Net change in Fair Market Value of Investments | (5,969) |
| Change in Accrued Capital Asset Purchases | 1,829 |
| Accretion on Bonds Payable | (33,309) |
| Amortization of Bonds Payable | 11,422 |
| Amortization of Deferred Inflow/Outflow | (1,005) |
| Decrease in Unearned Revenue | 1,640 |

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

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# Central Texas Turnpike System
# Notes to Financial Statements


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

### *Reporting Entity*

The accompanying financial statements reflect the financial position of the Central Texas Turnpike System (CTTS). CTTS is an enterprise fund of the Texas Department of Transportation (TxDOT), an agency of the state of Texas. The Texas Transportation Commission (Commission), the governing body of TxDOT, has the authority to commit CTTS to various legal agreements.

As of Aug. 31, 2022, CTTS consists of State Highway 130 Segments 1 through 4, State Highway 45 North, CTTS tolled portion of Loop 1 and State Highway 45 Southeast. A portion of the costs of planning, designing, engineering, developing and constructing of the first three elements was financed by bonds issued by the Commission. In fiscal 2013, State Highway 45 Southeast was transferred to CTTS. In the future, at the Commission's discretion, additional projects may be added to CTTS.

CTTS does not have any employees, although labor costs are included in the cost of constructing, operating and maintaining CTTS. When TxDOT staff members perform work on behalf of CTTS, the proportionate cost of that labor is reported as an expense of CTTS. TxDOT's risk financing and insurance programs apply to CTTS.

The records of CTTS are maintained in accordance with the practices set forth in the provisions of the indentures of the outstanding revenue bonds. These practices are modeled after generally accepted accounting principles that are similar to private business enterprises.

### *Basis of Presentation and Basis of Accounting*

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

### *GASB Pronouncements and Implementation Guides Effective for Fiscal 2022*

In fiscal 2022 CTTS adopted the following new GASB pronouncements and implementation guides:

- *GASB Statement No. 87, Leases.* This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under the statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Changes adopted to conform to the provisions of this Statement are applied retroactively by restating the beginning fund balance or net position, as applicable, for the earliest period restated. The effective date of the Statement is postponed from fiscal 2021 to fiscal 2022 by *GASB Statement 95, Postponement of the Effective Dates of Certain Authoritative Guidance*, due to the COVID-19 pandemic.

- *GASB Statement No. 93, Replacement of Interbank Offered Rates.* This statement addresses accounting and reporting implications that result from the replacement of an interbank offered rate (IBOR) or the London Interbank Offered Rate (LIBOR) in hedging derivative instruments and leases. Paragraph 11b on the removal of LIBOR as an appropriate interest rate for hedging derivative instruments and paragraphs 13 and 14 related to lease modifications are effective for fiscal 2022. All other paragraphs of the Statement were effective in fiscal 2021.

- *GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statement No. 14 and No. 84, and a supersession of GASB Statement No. 32.* The effective date of the Statement, other than paragraphs 4 and 5 was postponed to fiscal 2022 by *GASB Statement 95, Postponement of the Effective Dates of Certain Authoritative Guidance*, due to the COVID-19 pandemic. The Statement requires the IRC Section 457 plan be classified as either a pension plan or an other employee benefit plan. The Section

457 Deferred Compensation Plan of TxDOT does not meet the definition of a pension plan and is therefore an other employee benefit plan for accounting and financial reporting purposes. See Note 9 for details of the deferred compensation plans. Paragraphs 4 and 5 related to certain component unit criteria, were effective in fiscal 2021.

- *GASB Statement No. 99, Omnibus 2022.* Paragraphs 26-32 on replacement of LIBOR, SNAP, disclosure of nonmonetary transactions, pledges of future revenues, focus of the government-wide financial statements, and terminology updates are effective upon issuance, or for fiscal 2022. TxDOT early implemented Paragraphs 11-17 related to leases in fiscal 2022. Paragraphs 18-25 related to PPPs and SBITAs are effective in fiscal 2023. Paragraphs 4-10 related to financial guarantees and derivative instruments are effective in fiscal 2024.

- *GASB Implementation Guide No. 2019-3 Leases.* The Implementation Guide provides questions and answers related to accounting and financial reporting for leases in accordance with the requirements of Statement 87.

- *GASB Implementation Guide No. 2020-1, Implementation Guidance Update – 2020*. The requirements of the Implementation Guide are effective for fiscal 2022 except for questions 4.19-4.21 on conduit debt obligations, which will be effective for fiscal 2023. TxDOT early implemented Questions 4.6-4.17 on leases in fiscal 2022. Questions and answers in paragraph 4 are new Category B guidance in the hierarchy of generally accepted accounting principles. Questions in the paragraph 5 amend questions in previously issued Implementation Guides.

- *GASB Implementation Guide No. 2021-1, Implementation Guidance Update – 2021*. Question 4.22 on the effective date and transition of Statement 87 is effective for fiscal 2022. All other questions and answers of the Implementation Guide are effective in fiscal 2023.

These financial statements present only the financial position, changes in financial position and cash flows of CTTS. They are not intended to, and do not, present fairly the financial position, changes in financial position or cash flows of TxDOT. The reporting period is for the state fiscal year ended Aug. 31, 2022.

***Fund Structure***

The activity of CTTS is reported in a proprietary fund. Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

A proprietary fund distinguishes operating from nonoperating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary fund's principal ongoing operations. Operating expenses for an enterprise fund include cost of sales and services, administrative expenses and depreciation on capital assets.

***Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position***

*Cash and Cash Equivalents*

For reporting purposes, cash and cash equivalents includes cash on hand, cash in transit, cash in local banks, cash in the treasuries, money market funds, state and local government investment pools, and cash equivalents. The statement of cash flows presents the change in cash and cash equivalents during the fiscal year. Cash equivalents are defined as short-term, highly-liquid investments that are both readily convertible to known amounts of cash and so near maturity they present insignificant risk of a decrease in value due to changes in interest rates. Investments with an original maturity of three months or less and used for cash management rather than investing activities are considered cash equivalents.

*Investments*

Short-term investments are investments with a maturity greater than 90 days but less than one year at the time of purchase. Short-term investments are recorded on an amortized cost basis. Long-term investments are investments with a maturity of one year or more at the time of purchase. Long-term investments are recorded at fair value based upon quoted market prices as of the fiscal year end. All investment income, including changes in the fair value of investments, is recognized as nonoperating revenue in the Statement of

Revenues, Expenses and Change in Net Position. See Note 3 for more information.

*Accounts Receivable*

The accounts receivable asset is comprised of toll operations revenue earned but not yet received by CTTS of $47.9 million, net of an allowance for doubtful accounts of $28.0 million, as of Aug. 31, 2022.

*Interest and Dividends Receivable*

The amount of interest and dividends that has been earned, but which has not yet been received as of fiscal year end.

*Due from Other Funds*

Due from other funds represents amounts due to other funds within TxDOT, for a variety of costs. See Note 7 for more information.

*Consumable Inventory*

Consumable inventory is comprised of toll tags. The consumption method of accounting is used to account for inventory. The costs of these items are expensed when the items are distributed to consumers.

*Restricted Assets*

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include proceeds of enterprise fund notes/loans, revenue bonds and revenues set aside for statutory or contractual requirements. CTTS may receive funding whose related expenditure is restricted to certain activities. In situations where both restricted and unrestricted resources are available to cover expenses, CTTS will first expend the restricted resources and cover additional costs with unrestricted resources. CTTS reserves the right to selectively defer the use of restricted assets.

*Capital Assets*

Capital assets, which include buildings, construction in progress, infrastructure, land and permanent land-use rights are capitalized and reported in the financial statements.

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

| **Capitalization of Assets** | | |
|---|---|---|
| **Type** | **Capitalization Threshold** | **Estimated Useful Life** |
| Buildings and Building Improvements | $100,000 | 22 years |
| Infrastructure, Depreciable | $500,000 | 40 years |
| Internally Developed Software | $1,000,000 | 5 years |

All capital assets are capitalized at cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at acquisition value at the date of donation. Costs of normal maintenance and repairs that do not add value to the asset or materially extend the asset's useful life are not capitalized.

CTTS uses the depreciation approach for reporting both highways and highway bridges of the infrastructure assets. Under the depreciation approach, infrastructure assets are depreciated over a 40-year life, and certain preservation costs are capitalized. The capitalization threshold of $500,000 is used for both highway bridges and roadways.

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

Internally generated software costs are recorded as construction in progress during the application development stage of the project. Development costs are moved to Computer Software the year the asset in placed into service. See Note 2 for more information on Capital Assets.

*Deferred Inflows of Resources and Deferred Outflows of Resources*

Deferred outflows of resources are a consumption of net position by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets. Loss on refunding debt is reported as deferred outflows of resources.

Deferred inflows of resources are on acquisition of net assets by TxDOT that is applicable to a future reporting period. Deferred inflows have a negative effect on net position, similar to liabilities.

*Due to Other Funds*

Due to other funds represents amounts due to other funds within TxDOT, for a variety of costs. See Note 7 for more information.

*Revenue Bonds Payable*

Revenue bonds payable are reported at par less unamortized discount or plus unamortized premium. Payables are reported separately as either current or noncurrent in the statement of net position. See Notes 4 and 5 for more information.

***Net Position***

Proprietary funds report net position as the residual amount in a statement of net position. The categories of net position reported in this report include:

*Net Investment in Capital Assets*

Net investment in capital assets consists of capital assets (net of accumulated depreciation), and deferred outflow of resources, reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

*Restricted*

Restricted net position results when constraints placed on net position's use are either externally imposed by creditors, grantors, contributors and the like, or imposed by law through constitutional provisions or enabling legislation. The restricted component of net position represents restricted assets reduced by liabilities related to those assets.

*Unrestricted*

Unrestricted net position consists of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position.

***Revenues, Expenses, and Transfers***

*Operating Revenues*

CTTS operating revenues for fiscal 2022 is mainly comprised of $213.1 million in toll revenue. This represents $227.3 million in gross toll revenue, net of an increase in allowance for doubtful accounts of $14.2 million. CTTS also earned toll fees of $25.1 million and other sales revenue of $18.3 million.

*Operating Expenses*

Operating expenses include expenses incurred in operating the toll roads and the customer service center, and depreciation on capital assets.

*Nonoperating Revenues/Expenses*

Nonoperating revenues are mainly comprised of interest and investment revenue and lease revenue. Nonoperating expenses are any expenses not classified as operating, including bond interest expense and accretion on capital appreciation bonds.

*Transfers*

Transfers In/Out represents the flow of assets between funds. See Note 7 Interfund Activity for more information.

## *NOTE 2 – CAPITAL ASSETS*

The table below presents the composition of CTTS' capital assets, reclassifications, additions and deletions during fiscal 2022. The reclassifications column represents completed construction projects and transfers of capital assets between the governmental and business-type activities of TxDOT. The additions column includes current year purchases, depreciation and amortization. The deletions column represents assets removed during the current fiscal year via sale or disposition.

**Capital Assets Activity**
For the fiscal year ended August 31, 2022
(Amounts in Thousands)

| | Balance 09/1/2021 | Reclass-ifications | Additions | Deletions | Balance 08/31/2022 |
|---|---|---|---|---|---|
| **Non-Depreciable Assets & Non-Amortizable Assets** | | | | | |
| Land | $ 668,831 | $ | $ | $ | $ 668,831 |
| Construction in Progress | 128,845 | (36,210) | 7,503 | | 100,138 |
| Land Use Rights | 19,466 | | | | 19,466 |
| Total Non-Depreciable Assets | 817,142 | (36,210) | 7,503 | 0 | 788,435 |
| **Depreciable Assets** | | | | | |
| Buildings | 8,360 | | | | 8,360 |
| Infrastructure | 2,292,321 | 36,532 | | | 2,328,853 |
| Total Depreciable Assets | 2,300,681 | 36,532 | 0 | 0 | 2,337,213 |
| Less Accumulated Depreciation for: | | | | | |
| Buildings | (5,562) | | (361) | | (5,923) |
| Infrastructure | (550,464) | | (54,400) | | (604,864) |
| Total Accumulated Depreciation | (556,026) | 0 | (54,761) | 0 | (610,787) |
| Depreciable Assets, Net | 1,744,655 | 36,532 | (54,761) | 0 | 1,726,426 |
| **Intangible Capital Assets - Amortizable** | | | | | |
| Software | 54,322 | | | (3,259) | 51,063 |
| Total Amortizable Assets | 54,322 | 0 | 0 | (3,259) | 51,063 |
| Less Accumulated Amortization for: | | | | | |
| Software | (905) | | (10,865) | 706 | (11,064) |
| Total Accumulated Amortization | (905) | 0 | (10,865) | 706 | (11,064) |
| Amortizable Assets, Net | 53,417 | 0 | (10,865) | (2,553) | 39,999 |
| Total Capital Assets, Net | $ 2,615,214 | $ 322 | $ (58,123) | $ (2,553) | $ 2,554,860 |

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

CTTS is authorized by statute to make investments following the "prudent person rule". CTTS has complied, in all material respects, with statutory authorization, bond documents, constraints and commission policies during the period.

### *Deposits*

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

| **Cash and Cash Equivalents - Carrying Amount**<br>August 31, 2022 (Amounts in Thousands) | | |
|---|---|---|
| Current Assets Cash | $ | 15,861 |
| Cash and Cash Equivalents - Carrying Amount | $ | 15,861 |

### *Investments*

*Measurement*

CTTS categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The three-tiered fair value hierarchies are as follows.

- Level 1 – Quoted prices in active markets for identical investments
- Level 2 – Significant other observable inputs other than quoted market prices
- Level 3 – Significant unobservable inputs

As of Aug. 31, 2022, the measurements of CTTS's investments are summarized below:

**Investment Fair Value and Maturities**
August 31, 2022 (Amounts in Thousands)

| Investment Type | Fair Value Hierarchy Level 1 | Other Measurement Amortized Cost | Total |
|---|---|---|---|
| Money Market Mutual Funds | $ | $ 20,054 | $ 20,054 |
| Governement Sponsored Entities | 83,989 | | 83,989 |
| Government Investment Pools | | 360,326 | 360,326 |
| Repurchase Agreements | | 85,763 | 85,763 |
| Total Investments | $ 83,989 | $ 466,143 | $ 550,132 |

Government sponsored entities investments of $84.0 million with maturities of one year or more are valued at quoted market prices (Level 1 input).

As of Aug. 31, 2022, CTTS also has the following types of investments which are excluded from measurement at fair value according to GASB 72.

- Investments in money market mutual funds, government investment pools and repurchase agreements of $466.1 million with maturities less than one year are valued at amortized cost.

*Custodial Credit Risk - Investments*

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Commission's investment policy states that all securities purchased by the Commission shall be designated as assets of the Commission and shall be protected through the use of a third-party custody/safekeeping agent, which may be a Trustee.

*Credit Risk - Investments*

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

The Commission's policy does not limit the amount of investment in obligations of the United States or its agencies.

As of Aug. 31, 2022, CTTS' investments had the following ratings:

**Investment Credit Ratings**
August 31, 2022 (Amounts in Thousands)

| Investment Type | | Valuation | Moody's | Standard & Poor's | Fitch |
|---|---|---|---|---|---|
| Money Market Mutual Funds: | | | | | |
| JPMorgan US Government Fund | $ | 20,004 | Aaa-mf | AAAm | AAAmmf |
| Morgan Stanley Instl Liquidity Government Fund | | 50 | Aaa-mf | AAAm | AAAmmf |
| Government Sponsored Entities: | | | | | |
| Federal Farm Credit Banks Funding Corporation | | 9,081 | Aaa | AA+ | AAA |
| Federal Home Loan Mortgage Corporation | | 74,908 | Aaa | AA+ | AAA |
| Government Investment Pools: | | | | | |
| TexPool Prime | | 360,326 | NR | AAAm | NR |
| Repurchase Agreements : | | | | | |
| Repo (TTSTC) | | 85,763 | NR | AAAf | NR |
| Total | $ | 550,132 | | | |

NR= Not Rated

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Assets held shall be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific class of securities. As of Aug. 31, 2022, the following investments exceeded five percent of the total portfolio: JPMorgan money market mutual fund, Federal Home Loan Mortgage Corporation, TexPool Prime and the Repurchase Agreement.

The Commission addresses diversification in the Commission's Investment Policy. Diversification strategies shall be determined and revised periodically by the investment officer.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission has addressed interest rate risk in its various accounts by matching as closely as possible anticipated cash flows with income and return of principal on investments. Investment maturities are noted in the investment table. Approximately 84.7 percent of the investments mature within one year. Market value fluctuation of the overall portfolio is minimized by keeping the weighted average maturity low.

## *NOTE 4 - SUMMARY OF LONG-TERM LIABILITIES*

As of Aug. 31, 2022, CTTS had seven bond issues outstanding. Additional detail is provided in the sections that follow. As detailed below, the following changes occurred in long-term liabilities during the year ended Aug. 31, 2022.

**Changes in Bonds Payable**
For the Fiscal Year Ended August 31, 2022 (Amounts in Thousands)

| | Bonds Outstanding 08/31/2021 | Adjustments* | Additions** | Reductions | Bonds Outstanding 08/31/2022 | Due Within One Year |
|---|---|---|---|---|---|---|
| Revenue Bonds Payable | $ 2,931,483 | $ (236,422) | $ 33,309 | $ (45,350) | $ 2,683,020 | $ 65,720 |
| Revenue Bonds - Direct Placements | | 225,000 | | | 225,000 | |
| Total | $ 2,931,483 | $ (11,422) | $ 33,309 | $ (45,350) | $ 2,908,020 | $ 65,720 |

* Includes current year amortization of premiums and discounts and remarketing conversion of CTTS 2020-B to a direct placement.
** Includes current year accretion.

*Pledged Future Revenues*

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

**Pledged Future Revenue** (Amounts in Thousands)

| | | |
|---|---|---|
| Pledged Revenue Required for Future Principal and Interest on Existing Bonds | $ | 4,358,997 |
| Term of Commitment, Ending: | | 8/15/2042 |
| Percentage of Revenue Pledged | | 99.50% |
| Current Year Pledged Revenue | $ | 263,968 |
| Current Year Principal and Interest Paid | $ | 139,167 |

***NOTE 5 – BONDED INDEBTEDNESS***

**Revenue Bonds**

Transportation Code, Chapter 228 Subchapter C authorizes the Commission to issue revenue bonds to pay a portion of the costs of planning, designing, engineering, developing and constructing the CTTS. The bonds are payable from and secured solely by a first and second lien on, as applicable, and pledge of the trust estate. The trust estate consists of all project revenues and all project earnings including investment earnings deposited into the revenue fund, construction fund (except for any amounts held in a sub-account containing monies derived from the state highway fund or any monies received by the Commission that are restricted to another use), the debt service fund, the debt service reserve fund, the rate stabilization fund, and the general reserve fund.

In an event of default under the terms of the Indenture of Trust dated as of July 15, 2002, the Trustee may take the following actions and upon the written request of the owners of not less than 20 percent in principal amount of outstanding obligations shall proceed to:

(i) Protect and enforce its rights and the rights of the owners under the state law and the Indenture by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for mandamus or the specific performance of any covenant or agreement contained in the Indenture or in aid or execution of any power granted by the Indenture or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights.

(ii) In the enforcement of any remedy under the Indenture the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any event of default becoming, and at any time remaining, due from the Commission.

**Miscellaneous Bond Information**
(Amounts in Thousands)

| Description of Issue | Bonds Issued to Date | Date Issued | Range of Interest Rates | Maturities First Year | Maturities Last Year | First Call Date |
|---|---|---|---|---|---|---|
| First Tier Revenue Bonds Series 2002-A | | | | | | |
| Non-Callable Capital Appreciation Bonds* | $ 765,139 | 08/29/02 | 4.47% 5.75% | 2012 | 2030 | n/a |
| Callable Capital Appreciation Bonds ** | 325,494 | 08/29/02 | 6.00% 6.10% | 2025 | 2038 | 8/15/2012 |
| First Tier Revenue Refunding Bonds, Series 2012-A | 585,330 | 11/27/12 | 4.00% 5.00% | 2038 | 2041 | 8/15/2022 |
| First Tier Revenue Refunding Bonds, Series 2015-B | | | | | | |
| Current Interest Bonds and Term Bonds | 198,025 | 02/04/15 | 5.00% 5.00% | 2032 | 2037 | 8/15/2024 |
| Capital Appreciation Bonds* | 128,504 | 02/04/15 | 4.36% 4.38% | 2036 | 2037 | 8/15/2024 |
| Second Tier Revenue Refunding Bonds, Seies 2015-C | 1,157,320 | 02/04/15 | 5.00% 5.00% | 2022 | 2042 | 8/15/2024 |
| First Tier Revenue Refunding Bonds, Series 2020-A | 179,475 | 03/05/20 | 3.00% 5.00% | 2039 | 2040 | 8/15/2030 |
| First Tier Revenue Refunding Variable Rate Bonds, Series 2020-B | 225,000 | 03/05/20 | variable | 2042 | 2042 | *** |
| First Tier Revenue Refunding Bonds, Series 2020-C | 279,305 | 03/05/20 | 3.03% 3.03% | 2031 | 2041 | 8/15/2030 |
| Total | $ 3,843,592 | | | | | |

* Bonds issued to date include interest accreted to principal.

** Bonds are not outstanding as of 08/31/2022.

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

Neither the state, Commission, TxDOT nor any other agency or political subdivision of the state is obligated to pay the principal, premium, discount or interest on the CTTS revenue bonds except from the trust estate. The bond indenture does not create a mortgage on the CTTS.

Debt service requirements for the First Tier Revenue Bonds as of Aug. 31, 2022, are detailed in the following tables:

**Debt Service Requirements - Revenue Bonds** (Amounts in Thousands)

**Revenue Bonds**

| Year | Principal | Interest | Total |
|---|---|---|---|
| 2023 | $ 54,315 | $ 89,021 | $ 143,336 |
| 2024 | 63,380 | 88,752 | 152,132 |
| 2025 | 72,655 | 88,319 | 160,974 |
| 2026 | 87,030 | 87,707 | 174,737 |
| 2027 | 98,405 | 87,216 | 185,621 |
| 2028-2032 | 598,335 | 419,801 | 1,018,136 |
| 2033-2037 | 882,965 | 281,245 | 1,164,210 |
| 2038-2042 | 934,605 | 102,355 | 1,036,960 |
| | 2,791,690 | 1,244,416 | 4,036,106 |
| Unamortized Accretion | (259,901) | | (259,901) |
| Unamortized Premium | 151,231 | | 151,231 |
| Total | $ 2,683,020 | $ 1,244,416 | $ 3,927,436 |

**Debt Service Requirements - Revenue Bonds** (Amounts in Thousands)

**Revenue Bonds - Direct Placements**

| Year | Principal | Interest * | Total |
|---|---|---|---|
| 2023 | $ | $ 4,950 | $ 4,950 |
| 2024 | | 4,955 | 4,955 |
| 2025 | | 4,945 | 4,945 |
| 2026 | | 4,950 | 4,950 |
| 2027 | | 4,950 | 4,950 |
| 2028-2032 | | 24,755 | 24,755 |
| 2033-2037 | | 24,745 | 24,745 |
| 2038-2042 | 225,000 | 23,643 | 248,643 |
| Total | $ 225,000 | $ 97,893 | $ 322,893 |

* Series 2020-B debt service requirements are calculated with interest rate of 2.20 percent which is the interest rate reported at Aug. 31, 2022.

The Central Texas Turnpike System First Tier Revenue Refunding Put Bonds, Taxable Series 2020-B were remarketed on the mandatory tender date of Aug. 15, 2022 through a private placement. The bonds were redesignated to tax-exempt bonds as the "Central Texas Turnpike System First Tier Revenue Refunding Bonds, Series 2020-B to bear interest in an Index Floating Rate Mode.

**Defeased Bonds**

The Commission has defeased various bond issues by placing funds in irrevocable trusts with external financial institutions to provide for all future debt service payments on the old bonds. As of Aug. 31, 2022, the amount of CTTS defeased bonds that remain outstanding are presented in the following table:

| **Defeased Bonds Outstanding** (Amount in Thousands) | |
|---|---|
| **Description** | **Par Value** |
| Revenue Bonds | |
| Series 2002-A Capital Appreciation Bonds * | $ 23,863 |
| Total | $ 23,863 |

** Includes $16,073 of accreted interest.*

***NOTE 6 - RETIREMENT PLAN AND POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS***

CTTS, an enterprise fund of the Texas Department of Transportation (TxDOT), is part of TxDOT's reporting entity. CTTS does not have any employees and does not make contributions to any retirement plans or other postemployment benefits (OPEB) plans. TxDOT employees provide all accounting and administrative services for CTTS. Those employees are members of the Employee Retirement System of Texas defined benefit pension plan (ERS Plan) and the State Retiree Health Plan (SRHP). CTTS is not obligated in any form for the funding of the pension benefits provided by the ERS Plan or the postemployment benefits provided through the SRHP. Allocation of the pension and OPEB liabilities and expense for CTTS is deemed unnecessary and not required. The details are disclosed in the TxDOT's Annual Comprehensive Financial Report for the pension plan in Note 8 and the OPEB plan in Note 10.

***NOTE 7 – INTERFUND ACTIVITY***

Transfers In/Out represents the flow of assets (cash or goods) between funds. In fiscal 2022, CTTS transfers to the State Highway Fund (SHF) totaled $161 thousand.

Due To/From Other Funds represents amounts due to or from other funds within TxDOT, for a variety of costs. At the end of fiscal 2022, net Due to Other Funds totaled $15.2 million as detailed in the following table:

| **Interfund Balance**<br>August 31, 2022 (Amounts in Thousands) | |
|---|---|
| **Category** | **Due To (From) SHF** |
| Due to SHF - Operations and Maintenance | $ 15,921 |
| Due from SHF - Veterans Waiver | (593) |
| Due from SHF - Transaction fees | (149) |
| Net due to SHF from CTTS | $ 15,179 |

Due from Other Funds totaled $25.5 million, as detailed in the following table:

**Interfund Balance**
August 31, 2022 (Amounts in Thousands)

| Category | Due From (TxTag Toll Collection Acct) |
|---|---|
| Due From SHF (TxTag Toll Collection Account) | $ 22,391 |
| | $ 22,391 |

| Category | Due From GPTC |
|---|---|
| Due From GPTC - transaction fees | $ 3,154 |
| | $ 3,154 |

The $22.4 million balance due from the SHF (TxTag Toll Collection Account) is comprised of prepaid tolls and fees held in toll custody funds as of Aug. 31, 2022. Also included are toll and fee revenues collected but not transferred from the SHF as of Aug. 31, 2022.

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

Under the current Texas Sunset Act, TxDOT will be abolished effective Sept. 1, 2029, unless continued in existence by the 91st Legislature as provided by the Act. If abolished, TxDOT may continue until Sept. 1, 2030 to wind down its operations. In the event that TxDOT is abolished pursuant to the Texas Sunset Act or other law, Texas Government Code, Section 325.017(f), acknowledges that such action will not alter the obligation of the abolished agency.

***NOTE 9 – COMMITMENTS & CONTINGENCIES***

***Lawsuits and Claims***

CTTS is contingently liable in respect to lawsuits and claims in the ordinary course of business which, in the opinion of TxDOT's management, will not have a material adverse effect on the financial statements.

***Arbitrage***

Rebatable arbitrage defined by Internal Revenue Code (IRC), Section 148, is earnings on tax exempt bond proceeds in excess of the yield on the bond. The rebatable arbitrage must be repaid to the federal government. Pursuant to the applicable bond Indenture of Trust, a Rebate Fund will be established under the Indenture to which deposits will be made upon the determination by a verification agent that a rebate payment may be due. The amount of rebate due to the federal government is determined and payable during each five-year period and upon final payment of the tax-exempt bonds. IRC Section 148 also provides for certain rebate exceptions, including an exception if certain spend-out requirements of the bond proceeds are met. TxDOT estimates that rebatable arbitrage liability, if any, will be immaterial to the agency's overall financial condition. No arbitrage liability has been determined or payable for the current reporting period.

***Significant Contract Commitments***

TxDOT and Central Texas Regional Mobility Authority (CTRMA) entered into a funding agreement dated June 18, 2018 for the construction of a direct connector from eastbound US 290 to southbound SH 130. CTRMA direct connector reached substantial completion in May 2021.

Also, a contract was entered with Carahsoft Technology Corporation effective August 23, 2021 for the TxBOS Active Attention Services for TxDOT's Toll Operation Division.

Disclosure of the contract commitment as of Aug. 31, 2022 is displayed below:

**CTTS Contract Commitments**
August 31, 2022 (Amounts in Thousands)

| Contractor | Project Description | | Contract Commitment | Cash Paid through 8/31/22 | Remaining Commitment |
|---|---|---|---|---|---|
| Central Texas Regional Mobility Authority | Direct connector from eastbound US 290 to southbound SH 130 | $ | 24,227 | 22,500 | 1,727 |
| Carahsoft Technology Corp | Toll Ops Back-Office Software System | | 11,473 | 4,898 | 6,575 |
| | Total | $ | 35,700 | 27,398 | 8,302 |

***NOTE 10 - RISK FINANCING & RELATED INSURANCE***

The Central Texas Turnpike System ("CTTS") is a toll system financed by the Texas Transportation Commission and owned and operated by TxDOT. CTTS does not have any employees. TxDOT provides all accounting, debt financing and administrative services.

TxDOT 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. CTTS self-insures through funds on deposit within the Rate Stabilization Fund. The amount of funds held on deposit in the rate stabilization fund for self-insurance has been certified as actuarially sound by AMI Risk Consultants, Inc. To date, CTTS has not had to draw upon the funds in the rate stabilization fund to settle any claims and therefore settlements have not exceeded self-insurance coverage.

During the fiscal year, the Texas Transportation Commission maintained Not-for-Profit Entity and Directors, Officers Liability Insurance Policy Including Employment Practices Claims Coverage in connection with the CTTS.

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