

**TEXAS TRANSPORTATION COMMISSION**

VARIOUS Counties

**MINUTE ORDER**

Page 1 of 2

VARIOUS Districts

Government Code, Chapter 2256 (Public Funds Investment Act) authorizes the Texas Transportation Commission (commission) to purchase, sell, and invest its funds and funds under its control in investments that are in compliance with investment policies approved by the commission.

Government Code §2256.005 requires the commission to adopt a written investment policy regarding the investment of its funds and funds under its control, including a separate written investment strategy for each of the funds or group of funds under its control, and to designate one or more officers or employees of the Texas Department of Transportation (department) as investment officer to be responsible for the investment of funds consistent with the investment policy.

In Minute Order 108970, dated July 25, 2002, the commission approved and adopted a written investment policy and investment strategy applicable to funds of the commission relating to the Central Texas Turnpike System held by Bank One, N.A., (in such capacity with its successors, currently Bank of New York Mellon), as Trustee under the Indenture of Trust dated July 15, 2002, between the commission and the trustee. In Minute Order 114360, dated August 27, 2015, the commission approved and adopted a written investment policy and investment strategy applicable to funds in the prepaid TxTag custodial account under the Master Lockbox and Custodial Account Agreement by and between the Bank of New York Mellon Trust Company, N.A., as custodian, and the department. Pursuant to Government Code §2256.005(e) and Section 20 of the investment policy, the investment policy and investment strategies of the commission have been reviewed and revised annually by minute order since 2003, most recently by Minute Order 114706, dated August 25, 2016, which includes a written investment strategy applicable to funds related to obligations issued for the IH 35E Project under a Trust Agreement by and between Amegy Bank, a Division of ZB, National Association, as trustee, and the department.

The commission has designated the department's chief financial officer and the Director, Project Finance, Debt & Strategic Contracts Division as investment officers. The chief financial officer is primarily responsible for the execution of investment strategy and activities on a daily basis. However, in his/her absence, the Director, Project Finance, Debt & Strategic Contracts Division, or a designee of any of the investment officers (as evidenced in a delegation memorandum) shall perform these duties and responsibilities.

Government Code §2256.023 requires the designated investment officer to prepare and submit to the commission and the executive director, not less than quarterly, a written report of investment transactions for all funds covered by the Public Funds Investment Act for the preceding reporting period. The report must describe in detail the investment position of the department on the date of the report, and must be prepared jointly and signed by each investment officer.

Section 9.0 of the investment policy requires the investment officer to prepare and submit to each member of the commission and the executive director of the department an investment report on no less than a quarterly basis. The report must be prepared in accordance with the requirements of that section, including containing sufficient information to provide for a comprehensive review of investment activity and current

TEXAS TRANSPORTATION COMMISSION

VARIOUS Counties

MINUTE ORDER

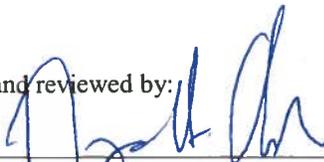
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VARIOUS Districts

investment instruments and performance for the reporting period. A quarterly investment report for the department for the period ending August 31, 2016, attached as Exhibit A, has been prepared in accordance with Government Code §2256.023 and Section 9.0 of the investment policy.

IT IS THEREFORE ORDERED by the commission that the quarterly investment report attached as Exhibit A is accepted.

Submitted and reviewed by:



Director, Project Finance,  
Debt & Strategic Contracts Division

Recommended by:



Executive Director

114743 OCT 27 16

Minute  
Number

Date  
Passed



# Texas Transportation Commission Quarterly Investment Report

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August 31, 2016

Exhibit A

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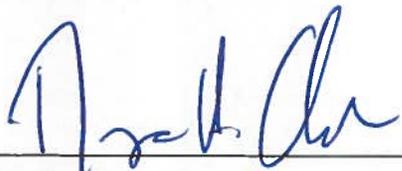
## MANAGEMENT'S CERTIFICATION OF THE QUARTERLY INVESTMENT REPORT

I certify that I have reviewed the Quarterly Investment Report as of and for the period ending August 31, 2016 that is being submitted for acceptance by the Texas Transportation Commission. To the best of my knowledge and belief:

1. In all material respects the Investment Report was prepared in accordance with the guidelines presented in Government Code, Chapter 2256 (Public Funds Investment Act) and Section 9.0 of the investment policy. The investments have been accorded consistent treatment in accordance with generally accepted accounting principles.
2. There have been no material misrepresentations in the report by the inclusion or exclusion of information.
3. An effective system of internal controls has been established to ensure that material financial information is recorded in the accounting system and properly reported in the report and there were no material weaknesses in internal control during the period covered by the report or thereafter.
4. The Investment Report is formally reviewed in compliance with the annual audit of the Central Texas Turnpike System financial statements. An independent accountant's report on agreed-upon procedures to review management's compliance with the Public Funds Investment Act is conducted annually. The report is presented to the Commission.



\_\_\_\_\_  
Brian Ragland  
Chief Financial Officer  
Investment Officer



\_\_\_\_\_  
Benjamin H. Asher  
Director, Project Finance, Debt & Strategic Contracts Division  
Investment Officer

## 2002 PROJECT OF THE CENTRAL TEXAS TURNPIKE SYSTEM

### MANAGEMENT DISCUSSION

During the reporting period, all investment funds of the Texas Transportation Commission (Commission) were associated with the Central Texas Turnpike System (the System) obligations. The investments are held by The Bank of New York Mellon, acting as trustee. The funding of investments includes bond proceeds, capital contributions for the purpose of financing the 2002 Project of the System, revenues derived from operation of the System's toll roads and related investment earnings.

Suitable investments have been determined using the following criteria and priorities pursuant to the Commission's investment policy and the investment strategy relating to the System:

- 1) suitability of the investment to the financial requirements of the entity;
- 2) preservation and safety of principal;
- 3) liquidity;
- 4) marketability of the investment if the need arises to liquidate the investment before maturity;
- 5) diversification of the investment portfolio; and,
- 6) yield.

The investment instruments described in Schedule 1 are in compliance with the Public Funds Investment Act, investment policy and strategy of the Commission.

### INVESTMENT ACTIVITY

Interest and Investment Income for the quarter: \$2,068,349: yield 1.41%.

On August 15<sup>th</sup>, \$55.2 million in debt service was paid. Schedule 1 outlines all investments outstanding for the quarter ending August 31, 2016. The Guaranteed investment Contract is intended to be held to the maturity date of August 15, 2022.

### CURRENT STRATEGY

Due to historically low interest rates, our strategy has been to limit our investments to a maturity of less than one year. This approach will enable us to obtain a higher return when, as expected, the Federal Reserve increases the Federal Funds interest rate. Our strategy, however, will remain guided by the following principles: safety of principal, liquidity, and yield, in that order.

### CURRENT MARKET CONDITIONS

3-Month Treasury:	0.30%
2-Year Treasury:	0.74%
10-Year Treasury:	1.56%
Discount Rate:	1.00%

U.S. Treasury yields reflect monthly averages for August 2016 as posted by the Federal Reserve. Schedule 2 presents the U.S. Treasury Historical Yields.

**TEXAS DEPARTMENT OF TRANSPORTATION  
CENTRAL TEXAS TURNPIKE SYSTEM  
SCHEDULE 1  
Investments Outstanding  
Book Value to Fair Value Comparison  
August 31, 2016**

Interest and Investment Income                      \$2,068,349  
Yield for Quarter    1.41%

Description	Yield	Maturity Date	August 31, 2016	
			Book Value	Fair Value <sup>1</sup>
<i>Money Market Investments</i>				
JP Morgan Govt MMKT Fund	0.320%		\$ 101,341,369	\$ 101,341,369
Morgan Stanley Govt MMKT Fund	0.280%		36,517,584	36,517,584
<i>U.S Government Securities</i>				
U.S. Treasury Bill	0.525%	09/15/16	24,994,531	24,998,000
U.S. Treasury Bill	0.465%	11/25/16	7,991,113	7,994,320
U.S. Treasury Note	0.593%	11/30/16	15,006,300	15,006,300
<i>Lone Star Investment Pool <sup>2</sup></i>				
Government Overnight Fund	0.390%		77,402,532	77,376,874
<i>TexPool <sup>2</sup></i>				
Local Government Investment Pool	0.374%		46,805,846	46,790,992
Prime	0.610%		87,436,762	87,391,476
<i>Guaranteed Investment Contract <sup>3</sup></i>				
Citigroup Global Markets Inc. GIC (CUSIP S86538450)	5.20%	08/15/22	114,999,379	114,999,379
<i>Funds Held by State Highway Fund</i>				
Operating, Maint. and Reserve Maint.	0.82%		56,423,394	56,423,394
			<u>\$ 568,918,811</u>	<u>\$ 568,839,688</u>

**Notes:**

<sup>1</sup> For the quarter, ( \$24,200) was booked for changes in the Fair Value of investments. All investments are intended to held to maturity.

<sup>2</sup> These local government investment pools seek to maintain a one dollar per share as required by the Texas Public Funds Investment Act.

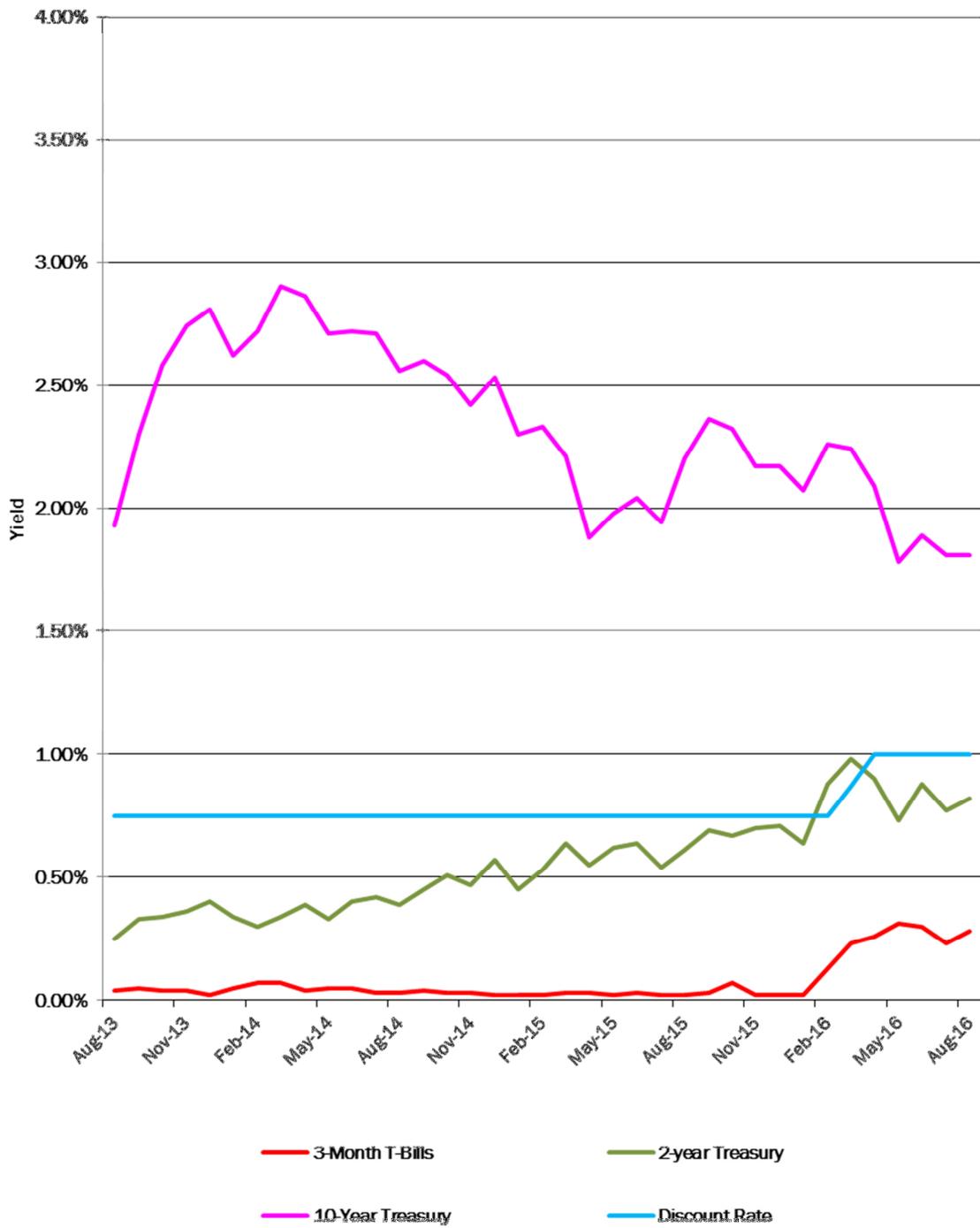
<sup>3</sup> This security was purchased under the terms of a forward purchase agreement that was executed in August 2002 at rates that were currently available at that time.

"Weighted average yield to maturity" is the portfolio performance measurement standard.

Yields and fair values as reported on monthly account statements.

Totals may not add due to rounding.

**Schedule 2  
U.S. Treasury Historical Yields**



**SCHEDULE 3**  
**Allocation by Account**  
**Quarters Ending May 2016 and August 2016**

5/31/2016

Description	Revenue Fund	1st Tier Interest Account	1st Tier Principal Account	1st Tier Debt Service Reserve	2nd Tier Interest	2nd Tier Debt Service Reserve	Rate Stabilization Fund	Capital Contributions Account	Reserves held by SHF	Portfolio Total
JP Morgan Govt MMKT Fund	6,497,309	507	544				380,225	51,247		6,929,832
Morgan Stanley Govt MMKT Fund					56,588					56,588
U.S. Treasury Notes						14,997,300	20,039,600			35,036,900
U.S. Treasury Bill				1,995,560		35,965,680		24,976,500		62,937,740
U.S. Govt Agency Securities							9,993,600			9,993,600
U.S. Govt Agency Discount Notes	74,948,950		874,624	9,980,706						85,804,280
Lonestar Govt Overnight Fund							12,665,485	64,664,623		77,330,107
TexPool Fund	49,285,095	28,624		966,543		1,376,819	2,251,765	43,228,600		97,137,446
TexPool Prime Fund							22,522,616	64,786,614		87,309,230
Guaranteed Investment Contract				114,999,379						114,999,379
Reserves Held by SHF									43,937,809	43,937,809
<b>Totals</b>	<b>\$ 130,731,354</b>	<b>29,131</b>	<b>875,168</b>	<b>127,942,188</b>	<b>56,588</b>	<b>52,339,799</b>	<b>67,853,290</b>	<b>197,707,584</b>	<b>43,937,809</b>	<b>\$ 621,472,911</b>

8/31/2016

Description	Revenue Fund (A)	1st Tier Interest Account (A)	1st Tier Principal Account	1st Tier Debt Service Reserve	2nd Tier Interest (B)	2nd Tier Debt Service Reserve	Rate Stabilization Fund	Capital Contributions Account	Reserves held by SHF	Portfolio Total
JP Morgan Govt MMKT Fund		33,106,485	184	6,989,946		30,752,875	30,387,881	103,997		101,341,369
Morgan Stanley Govt MMKT Fund					36,517,584					36,517,584
U.S. Treasury Notes						15,006,300				15,006,300
U.S. Treasury Bill				1,998,580		5,995,740		24,998,000		32,992,320
U.S. Govt Agency Securities										-
U.S. Govt Agency Discount Notes										-
Lonestar Govt Overnight Fund							12,673,144	64,703,730		77,376,874
TexPool Fund		18		967,135		1,377,661	2,253,143	42,193,035		46,790,992
TexPool Prime Fund							22,543,832	64,847,644		87,391,476
Guaranteed Investment Contract				114,999,379						114,999,379
Reserves Held by SHF									56,423,394	56,423,394
<b>Totals</b>	<b>\$ -</b>	<b>33,106,503</b>	<b>184</b>	<b>124,955,040</b>	<b>36,517,584</b>	<b>53,132,576</b>	<b>67,858,001</b>	<b>196,846,406</b>	<b>56,423,394</b>	<b>\$ 568,839,688</b>

Note <sup>(A)</sup> - In August, \$119.7 million was transferred out per the Trust Agreement

Note <sup>(B)</sup> - In August, \$26.3 million in debt service was paid

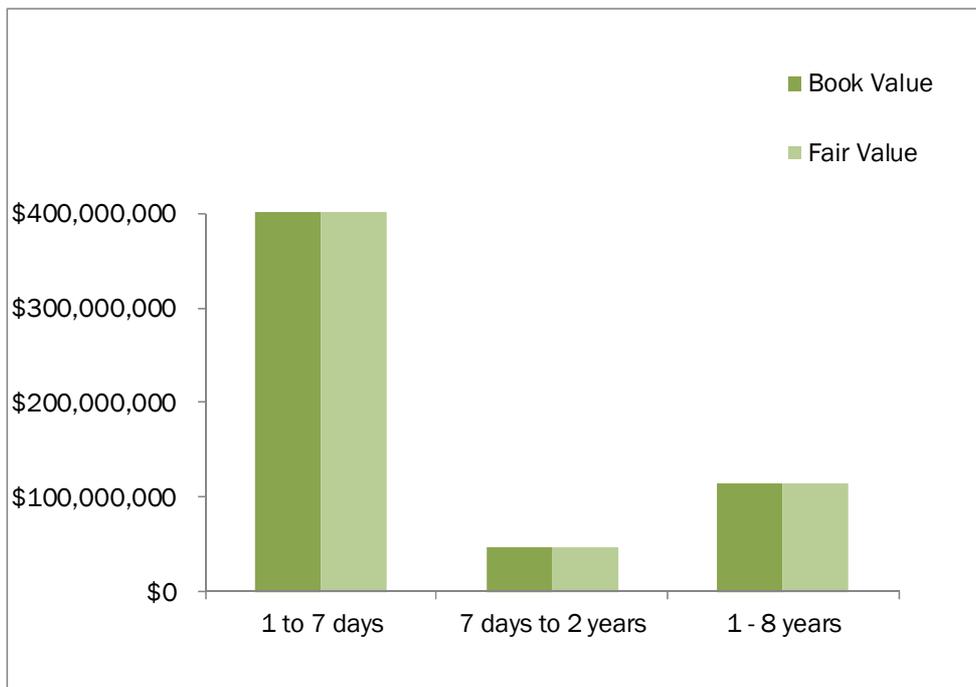
Note <sup>(C)</sup> - In August, \$28.9 million in debt service was paid

Fair Values as reported on monthly account statements.

Totals may not add due to rounding.

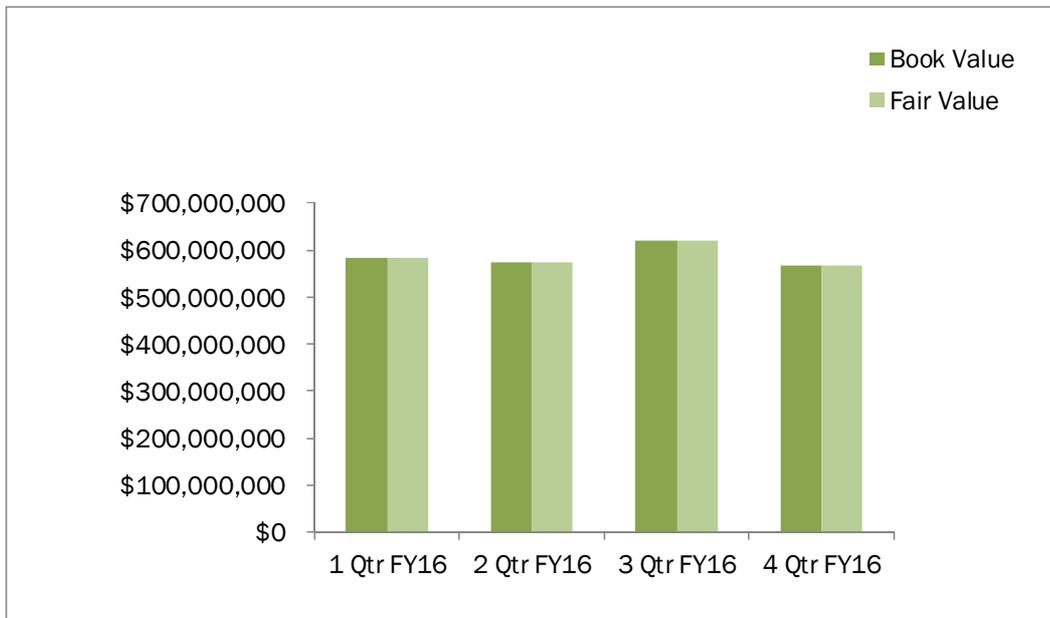
**SCHEDULE 4**  
**Maturity Distribution**  
**August 31, 2016**

Maturity Date	Book Value	Fair Value
1 to 7 days	\$405,927,488	\$405,841,689
7 days to 2 years	47,991,945	47,998,620
1 - 8 years	114,999,379	114,999,379
<b>Total Investments</b>	<b>\$568,918,811</b>	<b>\$568,839,688</b>



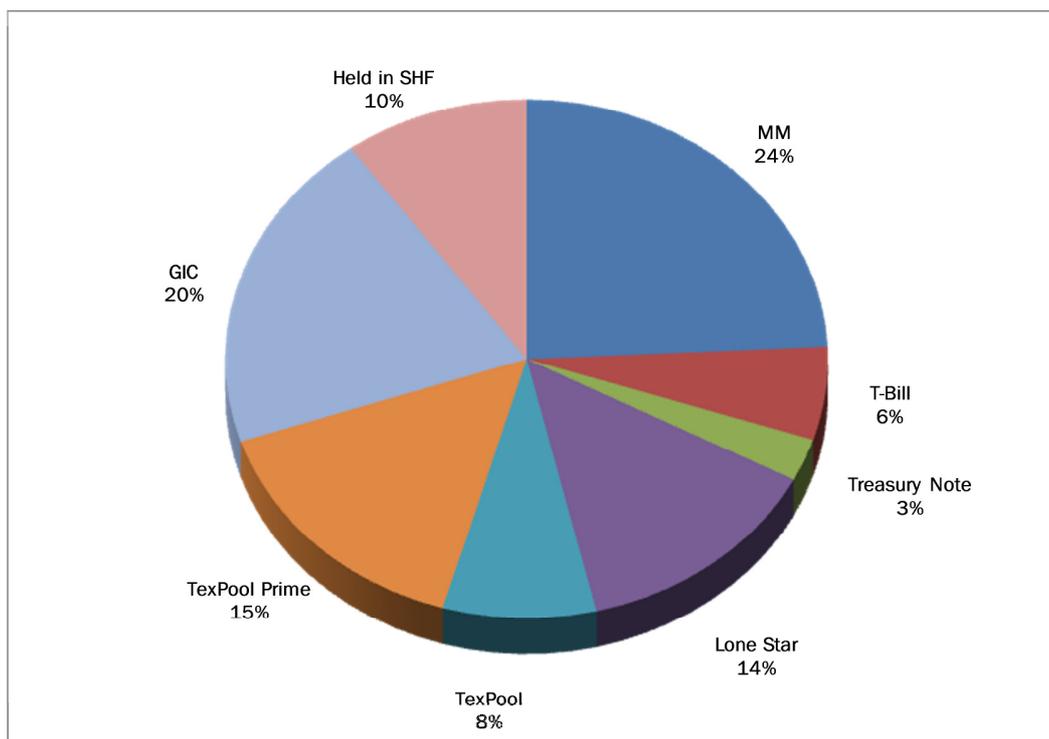
**SCHEDULE 5**  
**Investment Portfolio Quarter End Values**  
**August 31, 2016**

<u>Quarter End Values</u>	<u>Book Value</u>	<u>Fair Value</u>
1 Qtr FY16	\$584,136,236	\$583,972,990
2 Qtr FY16	575,686,846	575,698,130
3 Qtr FY16	621,478,495	621,472,911
4 Qtr FY16	568,918,811	568,839,688



**SCHEDULE 6**  
**Investments by Security Type**  
**August 31, 2016**

<b>Security Type</b>	<b>Fair Value</b>
Money Market Investments	<u>\$137,858,953</u>
US Treasury Bills	32,992,320
US Treasury Notes	15,006,300
Lone Star Government Overnight Fund	77,376,874
TexPool Local Government Investment Pool	46,805,846
TexPool Prime	87,436,762
Guaranteed Investment Contract (GIC)	114,999,379
Operating, Maint. and Reserve Maint. held in SHF	<u>56,423,394</u>
<b>Total Investments</b>	<b><u>\$568,899,829</u></b>



## PRE-PAID TX TAG ACCOUNT

### MANAGEMENT DISCUSSION

During the investment policy update in August 2015, the Texas Transportation Commission (Commission) adopted an investment strategy for the Pre-paid Tx Tag account held by The Bank of New York Mellon, acting as custodian.

Suitable investments have been determined using the following criteria and priorities pursuant to the Commission's investment policy and the investment strategy relating to the System:

- 1) suitability of the investment to the financial requirements of the entity;
- 2) preservation and safety of principal;
- 3) liquidity;
- 4) marketability of the investment if the need arises to liquidate the investment before maturity;
- 5) diversification of the investment portfolio; and,
- 6) yield.

Investments in this portfolio are restricted to:

- 1) US Treasury and other government obligations that carry the full faith and credit guarantee of the United States for the payment of principal and interest.
- 2) Federal Agency or U.S. government sponsored enterprises (GSE) obligations, participations or other instruments.
- 3) Securities and Exchange Commission registered money market funds.

Further restrictions on the portfolio include:

- 1) Only 20% of the Custodial Account can be investment with a final maturity not to exceed two years from the date of purchase
- 2) Maximum weighted average maturity for the investments may not exceed 240 days at any time.

The investment instruments described in Schedule 1 are in compliance with the Public Funds Investment Act, investment policy and strategy of the Commission.

### INVESTMENT ACTIVITY

Interest and Investment Income for the quarter: \$ 22,869: yield 0.36%.

Schedule 1 outlines all investments outstanding for the quarter ending August 31, 2016.

### CURRENT STRATEGY

Invest the portfolio for diversification into 6-9 month maturity sector. Our strategy, however, will remain guided by the following principles: safety of principal, liquidity, and yield, in that order.

### CURRENT MARKET CONDITIONS

3-Month Treasury:	0.30%
6-Month Treasury:	0.45%
1-Year Treasury:	0.57%
2-Year Treasury:	0.74%

U.S. Treasury yields reflect monthly averages for August 2016 as posted by the Federal Reserve.

**TEXAS DEPARTMENT OF TRANSPORTATION  
PRE-PAID TX TAG ACCOUNT  
SCHEDULE 1  
Investments Outstanding  
Book Value to Fair Value Comparison  
August 31, 2016**

Interest and Investment Income 22,869  
Yield for Quarter 0.36%

Description	Yield	Maturity Date	<b>August 31, 2016</b>	
			Book Value	Fair Value <sup>1</sup>
<i>Money Market Investments</i>				
BNY Mellon Cash Reserve Fund	0.010%		\$ 10,113,893	\$ 10,113,893
<i>U.S Government Securities</i>				
Treasury Note	0.544%	09/30/16	4,999,822	5,000,900
U.S. Agency Discount Note	0.520%	10/24/16	5,995,320	5,997,360
U.S. Agency Discount Note	0.555%	11/16/16	1,997,669	1,998,700
Treasury Bill	0.422%	02/09/17	6,986,928	6,986,280
			\$ 30,093,631	\$ 30,097,133

**Notes:**

<sup>1</sup> For the quarter, \$0 was booked for changes in the Fair Value of investments. All investments are intended to held to maturity.

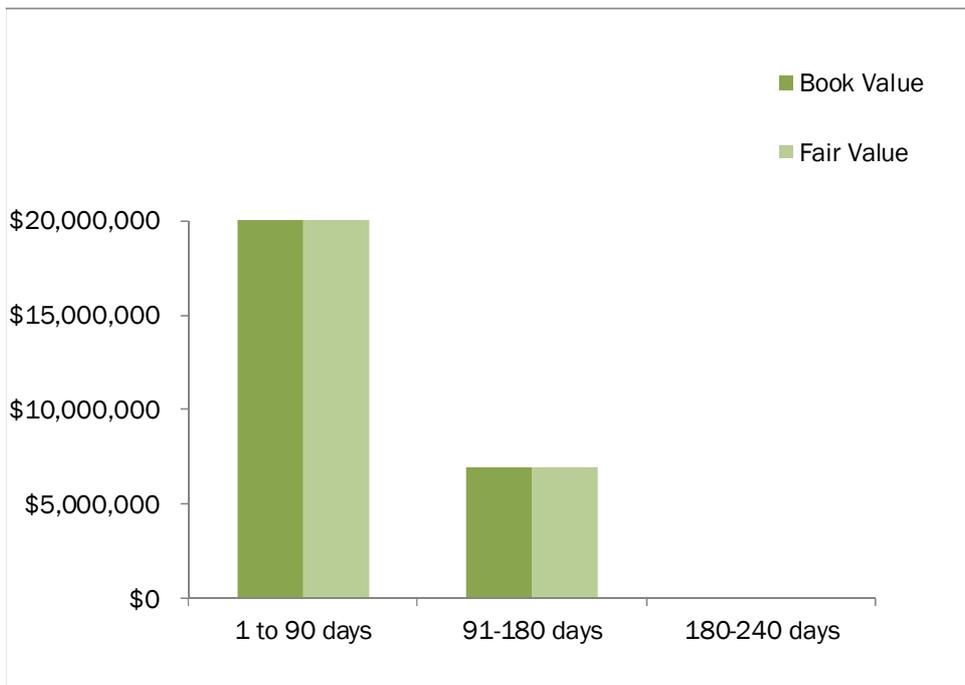
"Weighted average yield to maturity" is the portfolio performance measurement standard.

Yields and fair values as reported on monthly account statements.

Totals may not add due to rounding.

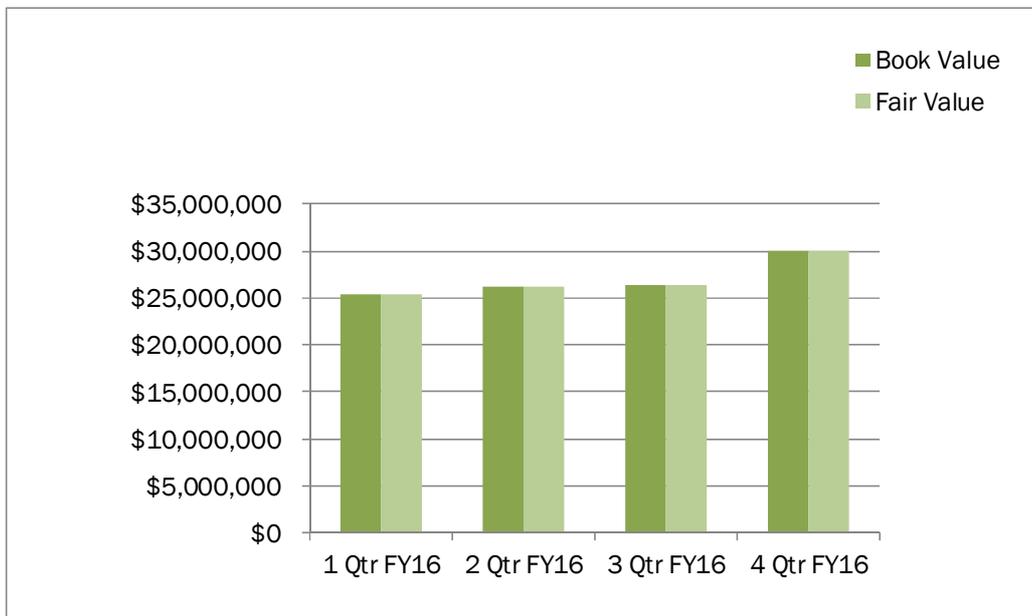
**SCHEDULE 2**  
**Maturity Distribution**  
**August 31, 2016**

<b>Maturity Date</b>	<b>Book Value</b>	<b>Fair Value</b>
1 to 90 days	\$23,106,703	\$23,110,853
91-180 days	6,986,928	6,986,280
180-240 days	0	0
<b>Total Investments</b>	<b>\$30,093,631</b>	<b>\$30,097,133</b>



**SCHEDULE 3**  
**Investment Portfolio Quarter End Values**  
**August 31, 2016**

<u>Quarter End Values</u>	<u>Book Value</u>	<u>Fair Value</u>
1 Qtr FY16	\$25,440,701	\$25,440,701
2 Qtr FY16	26,212,425	26,210,248
3 Qtr FY16	26,435,376	26,440,102
4 Qtr FY16	30,093,631	30,097,133



Strategy for this portfolio was authorized in August 2015

**SCHEDULE 4**  
**Investments by Security Type**  
**August 31, 2016**

<b>Security Type</b>	<b>Fair Value</b>
Money Market Investments	\$10,113,893
US Government Agency Securities	7,996,060
US T-Bills	6,986,280
US Treasury Notes	5,000,900
<b>Total Investments</b>	<b><u>\$30,097,133</u></b>

