State Auditor's Office

John Keel, CPA
State Auditor

A Report on

The Audits of the Fiscal Year 2012 Financial Statements of The Department of Transportation, The Central Texas Turnpike System, and The Texas Mobility Fund

January 4, 2013

Members of the Legislative Audit Committee:

In our audit reports dated December 12, 2012, we concluded that the following financial statements were materially correct and presented in accordance with accounting principles generally accepted in the United States of America:

- The Department of Transportation's (Department) basic financial statements for fiscal year 2012.
- The Department's Central Texas Turnpike System's basic financial statements for fiscal year 2012.
- The Department's Texas Mobility Fund's basic financial statements for fiscal year 2012.

The Department published our audit reports in each set of basic financial statements, which it intends to post on its Web site at:

- The Department's basic financial statements and Central Texas Turnpike System's basic financial statements: http://www.txdot.gov/inside-txdot/forms-publications/publications/finance/reports.html.
- The Department's Texas Mobility Fund's basic financial statements: http://www.txdot.gov/inside-txdot/forms-publications/publications/finance/mobility-fund.html.

The audit of the Department's basic financial statements for fiscal year 2012 was performed to comply with Texas Transportation Code, Section 201.2041, which required the Department to submit an audited financial report to the Sunset Advisory Commission prior to September 1, 2013. This was the first financial opinion audit that the Department had received on its basic financial statements since an opinion was issued on the Department's basic financial statements for fiscal year 1986.

We also issued a report on internal control over financial reporting and on compliance and other matters as required by auditing standards (that report, including responses from management, is presented in the attachment to this letter). In that report, auditors identified a significant deficiency in the Department's control environment over financial reporting. Specifically, although the Department has made some improvements, there are still weaknesses in its process for capturing and analyzing innovative financing agreements. In addition, there is ineffective communication among Department offices, divisions, and districts. Those weaknesses led to the Department making several restatements to beginning balances in its 2012 financial statements. Auditors also identified a significant deficiency in the management of access to certain information systems that the Department uses in financial reporting.

SAO Report No. 13-016

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Our procedures were not intended to provide an opinion on internal control over financial reporting or to provide an opinion on compliance with laws and regulations. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance with laws and regulations.

Auditors communicated certain issues that were not material or significant to the audit objectives in writing to the Department's management.

As required by auditing standards, we will also communicate to the Texas Transportation Commission certain matters related to the conduct of a financial statement audit.

The attachment to this letter also presents historical financial data regarding trends in the Department's financial activity in debt administration, revenue, expenditures, toll revenue, toll expenditures, and cash sources and letting of construction contracts. Additional information is available in a 2012 State Auditor's Office report on the Department's performance measures (*An Audit Report on Performance Measures, Implementation of Prior Audit Recommendations, and Trends at the Department of Transportation,* State Auditor's Office Report No. 12-049, August 2012).

We appreciate the Department's cooperation during these audits. If you have any questions, please contact James Timberlake, Audit Manager, or me at (512) 936-9500.

Sincerely,

John Keel, CPA
State Auditor

Attachment

cc: Members of the Texas Transportation Commission
Mr. Ted Houghton, Chair
Mr. Jeff Austin III
Mr. William Meadows
Mr. Jeff Moseley
Mr. Fred Underwood
Mr. Phil Wilson, Executive Director

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Attachment

Section 1

Report on Control and Compliance

State Auditor's Office
John Keel, CPA
State Auditor

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Members of the Texas Transportation Commission
Mr. Ted Houghton, Chair
Mr. Jeff Austin III
Mr. William Meadows
Mr. Jeff Moseley
Mr. Fred Underwood

We have audited (1) the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department of Transportation (Department); (2) the financial statements of the governmental activities and the major fund for the Texas Mobility Fund; and (3) the financial statements of the Central Texas Turnpike System as of and for the year ended August 31, 2012, which collectively comprise the Department's financial statements and have issued our reports thereon dated December 12, 2012. Except as discussed in the following paragraph, 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.

We have chosen not to comply with a reporting standard that specifies the wording to be used in discussing restrictions on the use of this report. We believe the use of such wording is not in alignment with our role as a legislative audit function.

Internal Control Over Financial Reporting

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the Department's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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SAO Report No. 13-308

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Summary of Findings and Responses
Finding Number
2012-1
2012-2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Department in writing.

The Department's response to the findings identified in our audit is included in the accompanying schedule of findings and responses. We did not audit the Department's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Texas Transportation Commission, Department management, and the Legislature. However, this report is a matter of public record, and its distribution is not limited.

John Keel, CPA
State Auditor

December 12, 2012

Schedule of Findings and Responses

Section 1

The Department Should Strengthen Its Financial Reporting Control Environment and Its Management of Access to Certain Systems

Issue 1
The Department of Transportation Should Strengthen Its Financial Reporting Control Environment

Reference No. 2012-1
Type of finding: Significant Deficiency

The Department of Transportation (Department) should strengthen its financial reporting control environment to help ensure that it can produce financial information in a timely and accurate manner.

Although the Department recently improved its internal controls, additional controls are needed to help ensure that financial reporting keeps pace with new financing methods.
To build roads, the Department has increasingly used innovative and complex financing methods such as bond financing, financing through Texas transportation corporations, toll roads, comprehensive development agreements, pass-through toll roads, and other public-private or public-public partnership agreements (see text box for additional details). However, the Department's financial reporting has not kept pace with those new financing methods. For example, prior to fiscal year 2012, the Department had no policy to ensure consistent reporting in its financial statements of various types of public-private partnership agreements. After it implemented new policies in fiscal year 2012, the Department had to adjust prior period balances to:

Public-private or Public-public Partnerships

Public-private or public-public partnerships are agreements between governments and private entities or other governments to provide services on a more efficient and cost-effective basis. The arrangements often result in governments transferring existing or newly constructed facilities and the obligation to provide certain services to an external entity. They can be a variety of service arrangements, management arrangements, and service concession arrangements.

Source: Governmental Accounting Standards Board Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*.

- Increase Accounts Payable in its financial statements by $34.6 million. That adjustment was necessary because the Department had not originally recorded a public-public agreement (the Grand Parkway Project in Houston) in its financial records.

- Decrease Deferred Revenues in its financial statements by $218.9 million. That adjustment was necessary because (1) the Department had incorrectly reported $239.1 million in Revenue when it should have reported $239.1 million in Deferred Revenue from a concession agreement associated with the Katy Managed Lanes Interstate 10 Project in Houston and (2) the Department had originally incorrectly reported $458.0 million in Deferred Revenue when it should have reported $458.0 million in Revenue associated with State Highway 161.

The Department does not have a central process for capturing and analyzing the details of new financing methods and determining their effect on its financial reporting. The Department recently conducted research by communicating with districts and divisions to identify agreements that meet certain criteria; however, because the Department does not have a structured and centralized process for identifying those agreements, there is still a risk that the Department could fail to identify all of those agreements and, therefore, not account for and report those agreements correctly. This could affect the assets, liabilities, revenue, and expenditures that the Department reports on its financial statements.

Issues in communication have led to significant adjustments in financial information. Since fiscal year 2008, auditors have identified significant adjustments that were necessary to correct Department financial information that ultimately was presented in the State's Comprehensive Annual Financial Report (CAFR). Those adjustments included a $669.7 million adjustment to record bridges as depreciable capital assets in fiscal year 2009, a $364.8 million adjustment for unrecorded pass-through toll roads in fiscal year 2010, and a $432.7 million adjustment related to an error in reporting debt not used for capital assets in fiscal year 2011. Many of those adjustments were necessitated by breakdowns in communication among the Department districts and divisions that report financial information.

In addition to making required adjustments that auditors identify, the Department regularly makes prior period adjustments to Capital Assets-Depreciable because its districts and divisions cannot produce a complete and verifiable population of bridges the Department owns in a timely manner. In fiscal year 2012, the Department also made prior period adjustments for bridges associated with public-private or public-public partnership agreements.

The Department has made prior period adjustments to account for bridges that were placed in service in prior years but not recorded. Those adjustments included $177.5 million in fiscal year 2009, $174.4 million in fiscal year 2010, and $321.5 million in fiscal year 2011. In fiscal year 2012, a prior period adjustment the Department made included $226.3 million in bridges that had been placed in service in prior years but not recorded in those years and $195.6 million in bridges that had been removed from service in prior years but not recorded in those years.

In preparing its fiscal year 2012 annual financial report, the Department implemented new procedures to account for public-private partnerships. The Department worked directly with the districts to identify (1) bridges and infrastructure that the Department owns and should recognize in its financial statements and (2) bridges and infrastructure that the Department does not own and should remove from its financial statements. As a result of that effort, the Department identified $863.0 million in additions to Capital Assets and $810.4 million in deletions from Capital Assets. However, auditors

identified $45.4 million in bridge and infrastructure additions to Capital Assets that the Department did not identify and $37.9 million in bridge and infrastructure deletions from Capital Assets that the Department did not identify.

During the preparation of its fiscal year 2012 annual financial report, the Department incorrectly accrued accounts payable twice for one of its non-major funds, resulting in a $64.5 million overstatement of accounts payable and transportation expenditures. That amount was 8.2 percent of the total liabilities and fund balance for the Department's aggregated non-major funds (see text box for additional details). After auditors questioned the support for one of the Department's accounting entries, the Department corrected that error. The error occurred because, according to the Department, two sections in the Department's Finance Division that estimate accounts payable and compile the Department's annual financial report did not properly coordinate when they calculated accounts payable.

Aggregated Non-major Fund

The Governmental Accounting Standards Board requires that financial statements be presented with a focus on major funds. Funds that do not have activity or balances that are large enough to qualify as a major fund are aggregated and presented as one fund on the basic financial statements.

Source: Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

The Department should strengthen its control environment. The Department's mission incorporates a variety of state transportation services into a single, diverse operation. The Department's decentralized operations require multiple offices, districts, and divisions across the state to coordinate. Efficient management of a decentralized operation requires strong centralized management that provides direction to and monitors reporting from the offices, districts, and divisions.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) provides a framework to help management of diverse organizations implement better internal controls (see text box for additional details). COSO principles suggest that the control environment is the foundation for all other components of internal controls because it provides discipline, process, and structure.

Five Components of an Internal Control Integrated Framework

- **Control Environment:** Sets the tone of an organization, influencing the control consciousness of its people.
- **Risk Assessment:** An organization's identification and analysis of risks relevant to achievement of its objectives, forming a basis for determining how risks should be managed.
- **Control Activities:** Established by policies and procedures and should be performed at all levels and at various stages of business processes to ensure that management directives are carried out.
- **Information and Communication:** The identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
- **Monitoring:** A process that assesses the quality of internal control performance over time.

Source: Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The COSO framework incorporates an organization's objectives: operations, reporting, and compliance. The reporting objective covers the preparation of reliable internal and external reports. Internal reporting objectives are driven by internal requirements, while external reporting objectives are driven primarily by regulations or standards that accounting bodies and other standards-setting organizations establish.

Recommendations

The Department should:

- Strengthen its control environment by training managers at all levels on recognizing the effect of operational matters on financial reporting.
- Conduct an entity-wide risk assessment to identify and minimize the risk of material misstatements when reporting financial information.
- Improve communication among offices, divisions, districts, and central operations to help ensure that it captures, analyzes centrally, and reports all relevant financial information in a timely and accurate manner, including identification of all relevant agreements for financing roads and identification of all bridges placed in service during a fiscal year.

Management's Response

The Department agrees with the recommendations to continue to strengthen its financial reporting control environment and acknowledges the details within the report. With recent enhancements in the reporting control environment, the Department identified the majority of these reported issues and corrected them in the preparation of the 2012 annual financial report. Over the past year, the Department has increased communication, added additional well-qualified staff and implemented additional validation controls to ensure that the necessary information flows to the financial reporting section.

In implementing the recommendations, the Department will take action immediately and plans to address all recommendations by August 31, 2013. The Department will consider training opportunities for Department staff to emphasis the effect of operational matters on financial reporting. The Department will evaluate entering into an internal consulting arrangement with the Department's internal audit office and obtaining external assistance to reduce overall risks and complement internal efforts. The Department also plans to focus on improving communication by developing more centralized, automated and streamlined processes for the collection of information on innovatively financed projects, bridges and other information needed for the preparation of the annual financial report.

Issue 2
The Department of Transportation Should Strengthen Its Management of Access to Certain Systems

Reference No. 2012-2
(Prior Audit Issues 12-555-04, 11-555-07, and 10-555-01)[1]

Type of finding: Significant Deficiency

To protect the integrity of its information resources, the Department should strengthen its management of access to certain systems.

The Department should strengthen the management of access to its Right of Way Information System (ROWIS) and its Revenue Logging System (DLOG). The Department does not have adequate controls to ensure segregation of duties and adequately restrict access to ROWIS. Specifically, one programmer had access to authorize transactions within ROWIS and submit the approved transactions to the accounting system for payment. In general, programmers should not have access to approve transactions or submit them for payment. Allowing programmers inappropriate access increases the risk of unauthorized or fraudulent transactions. In fiscal year 2012, the programmer did not approve any transactions within ROWIS or submit any transactions to the accounting system for payment.

In addition, auditors tested 140 user accounts with access to the server that houses ROWIS and DLOG and identified:

- Twenty-two accounts that were associated with 20 terminated contractors. Two of those 22 accounts were associated with users with duplicated accounts.
- One user account that could not be associated with a current Department employee or contractor.

Not maintaining appropriate access to ROWIS, DLOG, and the server that houses those systems increases the risk of unauthorized access to financial information.

[1] For prior audit issue 12-555-04, see *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2011* (State Auditor's Office Report No. 12-555, February 2012); for prior audit issue 11-555-07, see *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010* (State Auditor's Office Report No. 11-555, February 2011); and for prior audit issue 10-555-01, see *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2009* (State Auditor's Office Report No. 10-555, February 2010).

Recommendation

The Department should regularly review user access for ROWIS, DLOG, and the server that houses those systems and determine whether users' access levels are appropriate.

Management's Response

The servers that house the ROWIS and DLOG applications are managed through the Data Center Consolidation contract with DIR. All contractor accounts referenced by the finding were service provider accounts created and managed by IBM. DIR terminated the IBM contract for DCS and Capgemini/Xerox became the service provider. Several IBM accounts were left active during the transition period. Capgemini has completed an audit of all remaining accounts and has properly terminated the accounts referenced in the finding.

Capgemini / Xerox has established a formal on-boarding / off-boarding process where all account creations are done by a single, central identify management group. Capgemini / Xerox has implemented a Security Clearance and Tracking (SCATA) database to track all on / off boarding requests. Requests come from both the hiring manager and the HR system to ensure no single failure point in notification for on / off boarding requests. The identity management staff use SCATA to track and validate that proper security clearances are complete prior to establishing access and to ensure all access (including physical building access) is removed upon termination.

While TxDOT understands that Capgemini / Xerox should properly manage their on-boarding/off-boarding processes, TxDOT will now request quarterly audits of all contractor staff with access to TxDOT systems. This will validate the Capgemini/Xerox process.

Background Information on the Department of Transportation

The Department of Transportation (Department) specifies that its mission is "to work with others to provide safe and reliable transportation solutions for Texas."

The Department has shifted from using its traditional "pay-as-you-go" construction financing system to using other financing arrangements, including the following:

- Issuing debt.
- Providing debt issuance services for external developers through transportation corporations.
- Entering into public-private partnerships.
- Using revenue from toll roads.

To provide insight into the Department's financial status and sources and uses of funds, the State Auditor's Office compiled basic financial information that the Department has reported. The information presented below is from the Department's unaudited annual financial reports for fiscal years 2006 through 2011 and the audited financial statements of the Texas Mobility Fund and the Central Texas Turnpike System for fiscal years 2006 through 2011.

Debt Administration

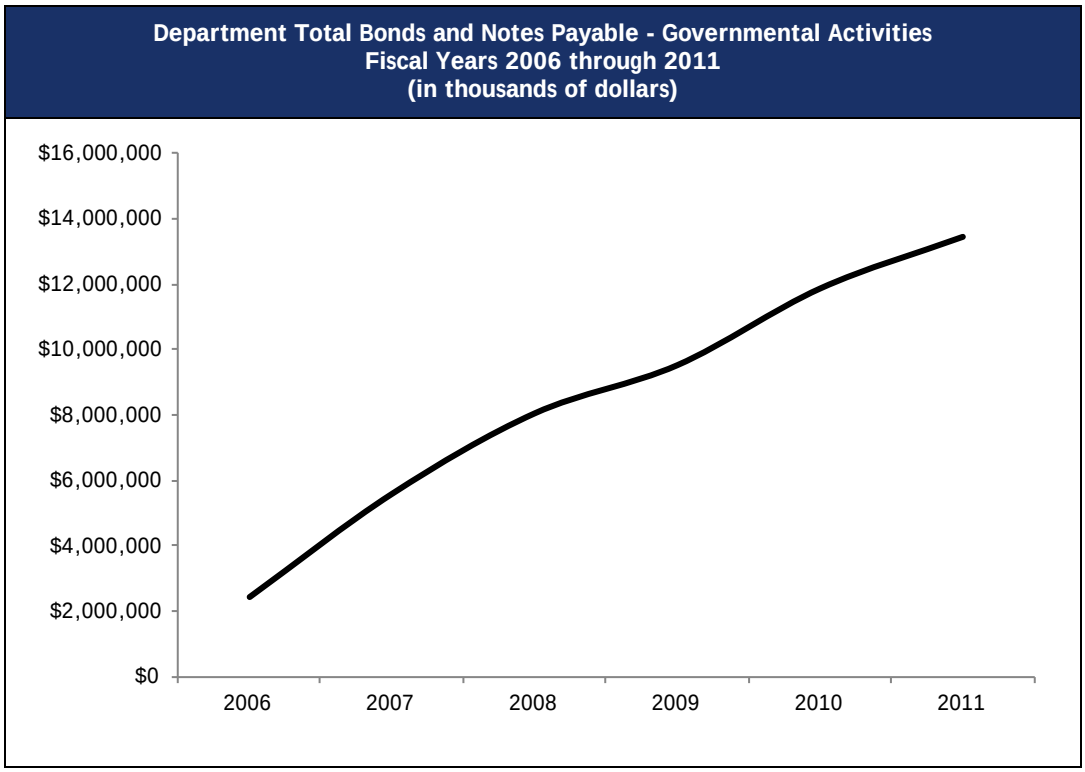
The Department has statutory authority to issue debt to assist in constructing and maintaining transportation systems. That debt has allowed the Department to maintain construction levels during a period of decreasing revenues. Debt that the Department's business type-activities have assumed has allowed the Department's Central Texas Turnpike System to construct and operate the turnpike. As Table 1 and Figure 1 on the following pages show, bonds and notes payable associated with the Department's governmental activities have increased significantly since fiscal year 2006.

Table 1

Department Bond and Notes Payable Fiscal Years 2006 through 2011 (in thousands of dollars)						
	Fiscal Years					
Category	2006	2007	2008	2009	2010	2011
Governmental Activities						
Current Portion of Bonds and Notes Payable	$ 144,835	$ 239,570	$ 317,400	$ 454,160	$ 241,715	$ 325,919
Total Bonds and Notes Payable	$ 2,414,365	$5,576,490	$8,036,610	$9,510,293	$11,852,790	$13,433,049
Increase in Bonds and Notes Payable	$ 0	$3,162,125	$2,460,120	$1,473,683	$ 2,342,497	$ 1,580,259
Bond Proceeds	$ 1,350,000	$3,149,155	$2,643,100	$1,224,495	$ 2,731,591	$ 999,998
Debt Service	$ 89,676	$ 260,484	$ 423,056	$ 502,346	$ 568,266	$ 754,744
Business-type Activities						
Current Portion of Bonds and Notes Payable	$ 124,930	$ 786,412	$2,368,735	$ 0	$ 422	$ 4,083
Total Bonds and Notes Payable	$2,325,022	$2,345,951	$2,368,735	$2,471,712	$ 2,544,937	$ 2,610,979
Increase in Bonds and Notes Payable	$ 0	$ 20,929	$ 22,784	$ 102,977	$ 73,225	$ 66,042
Bond Proceeds	$ 0	$ 0	$ 775,070	$ 143,041	$ 0	$ 0
Debt Service	$ 86,581	$ 98,636	$ 868,433	$ 193,156	$ 139,548	$ 140,402

Sources: Department unaudited annual financial reports for fiscal years 2006 through 2011.

Figure 1

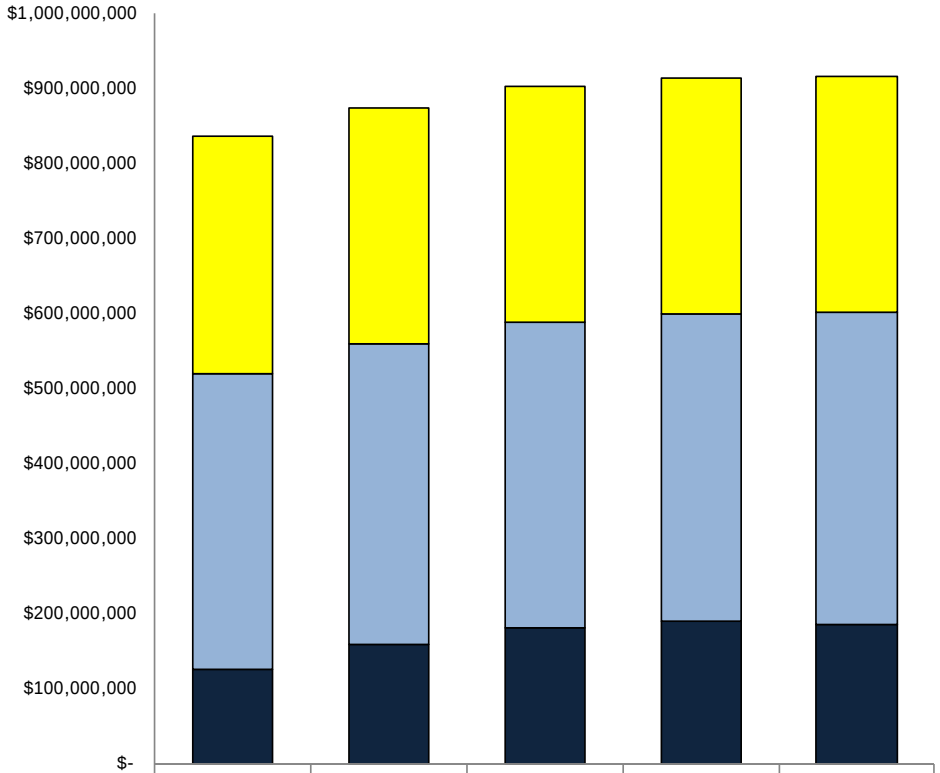


Sources: Department unaudited annual financial reports for fiscal years 2006 through 2011.

Figures 2 and 3 show the expected debt service requirements for fiscal years 2012 through 2016 for the Department's governmental funds and business-type activities.

Figure 2

Department Debt Service Requirements - Governmental Funds
Fiscal Years 2012 through 2016

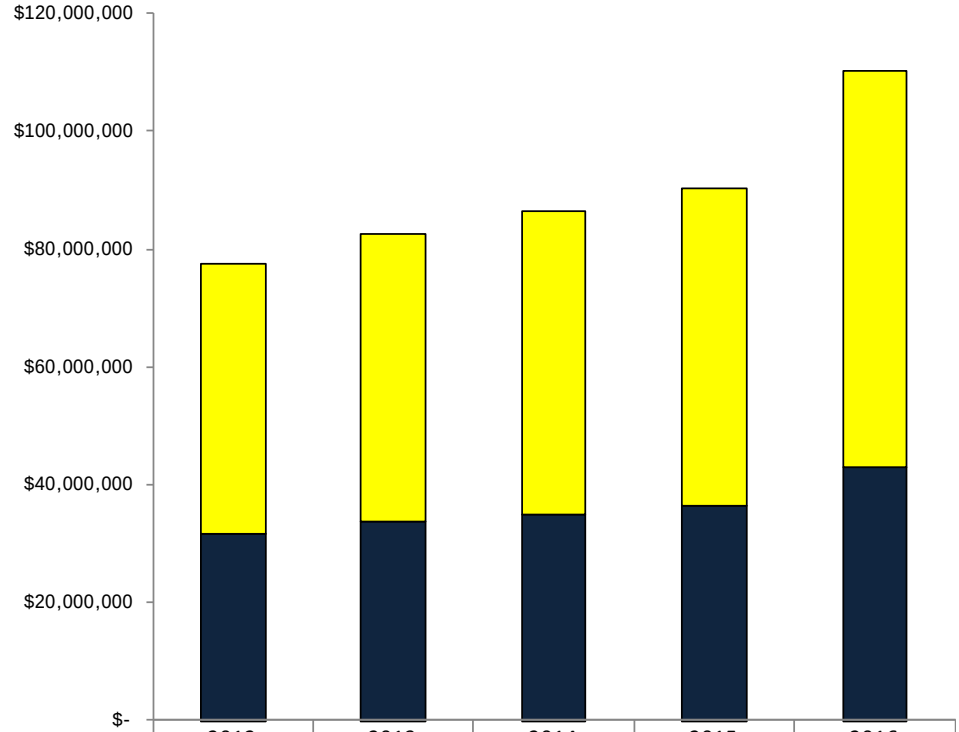


	2012	2013	2014	2015	2016
Revenue Bonds	$314,943,868	$314,957,368	$314,949,593	$314,946,168	$314,941,930
General Obligation Bonds, Net of Interest Rate Swaps	$396,099,042	$400,921,245	$405,811,989	$410,599,583	$415,431,530
Pass-through Tolls Payable	$125,538,194	$159,704,838	$182,451,380	$190,201,380	$186,201,380

Source: Department unaudited annual financial report for fiscal year 2011.

Figure 3

Department Debt Service Requirements - Business-type Activities
Fiscal Years 2012 through 2016



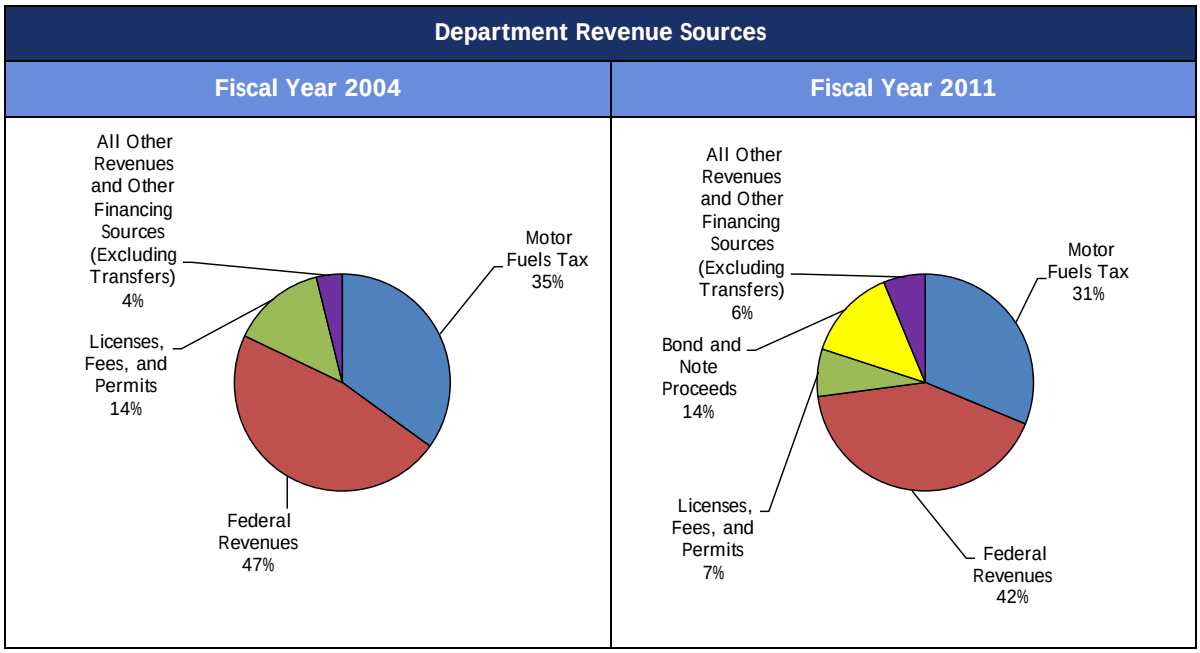
	2012	2013	2014	2015	2016
Revenue Bonds	$45,771,900	$48,976,900	$51,421,900	$53,871,900	$67,071,900
Transportation Infrastructure Finance and Innovation Act (TIFIA) of 1998 Loan	$31,690,305	$33,698,174	$35,022,513	$36,443,186	$43,188,071

Source: Department unaudited annual financial report for fiscal year 2011.

Revenue

Figures 4 and 5 show the Department's primary sources of revenue in fiscal year 2004 compared with its primary sources of revenue in fiscal year 2011. The largest two sources of revenue continue to be the State's motor fuels tax and federal revenue. Bond and note proceeds represented 14 percent of the total revenue in fiscal year 2011. Through fiscal year 2004, the Department had no bond and note proceeds.

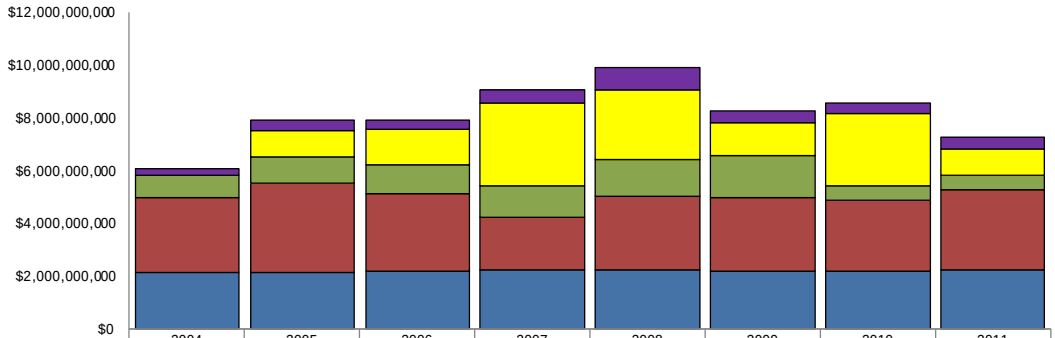
Figure 4



Sources: Department unaudited annual financial reports for fiscal years 2004 and 2011.

Figure 5

Department Revenue Sources
Fiscal Years 2004 through 2011



	2004	2005	2006	2007	2008	2009	2010	2011
All Other Revenues and Other Financing Sources (Excluding Transfers)	$235,247,248	$438,463,272	$372,593,894	$498,382,703	$851,104,201	$448,767,092	$397,359,360	$454,920,537
Bond and Note Proceeds	$0	$1,000,000,000	$1,350,000,000	$3,149,155,000	$2,643,100,113	$1,224,495,000	$2,731,591,221	$999,997,536
Licenses, Fees, and Permits	$856,108,382	$990,411,607	$1,079,807,484	$1,209,327,968	$1,396,798,128	$1,575,298,280	$541,236,436	$513,832,926
Federal Revenues	$2,870,767,359	$3,374,910,898	$2,945,306,120	$1,993,608,169	$2,759,319,468	$2,782,310,653	$2,690,133,778	$3,031,555,506
Motor Fuels Tax	$2,136,147,536	$2,149,813,097	$2,195,216,479	$2,240,787,658	$2,276,353,076	$2,226,424,339	$2,230,071,855	$2,271,984,731

Sources: Department unaudited annual financial reports for fiscal years 2004 through 2011.

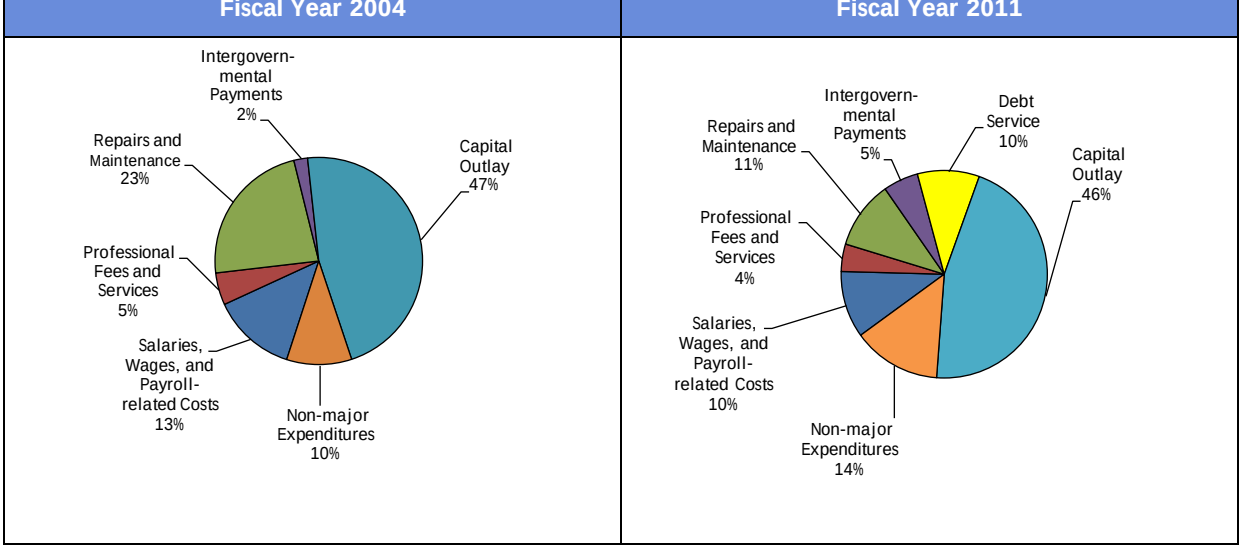
Expenditures

As Figures 6 and 7 show, the Department's expenditures are primarily capital outlay expenditures, which represented 47 percent and 46 percent of total expenditures in fiscal year 2004 and fiscal year 2011, respectively. Capital outlay expenditures include expenditures for highway and bridge construction, right of way, easements, buildings, furniture, equipment, and acquisition of all other capital assets.

Department expenditures for repairs and maintenance decreased from 23 percent of total expenditures in fiscal year 2004 to 11 percent of total expenditures in fiscal year 2011. Debt service expenditures, which were not required until fiscal year 2005, represented 10 percent of total expenditures in fiscal year 2011.

Figure 6

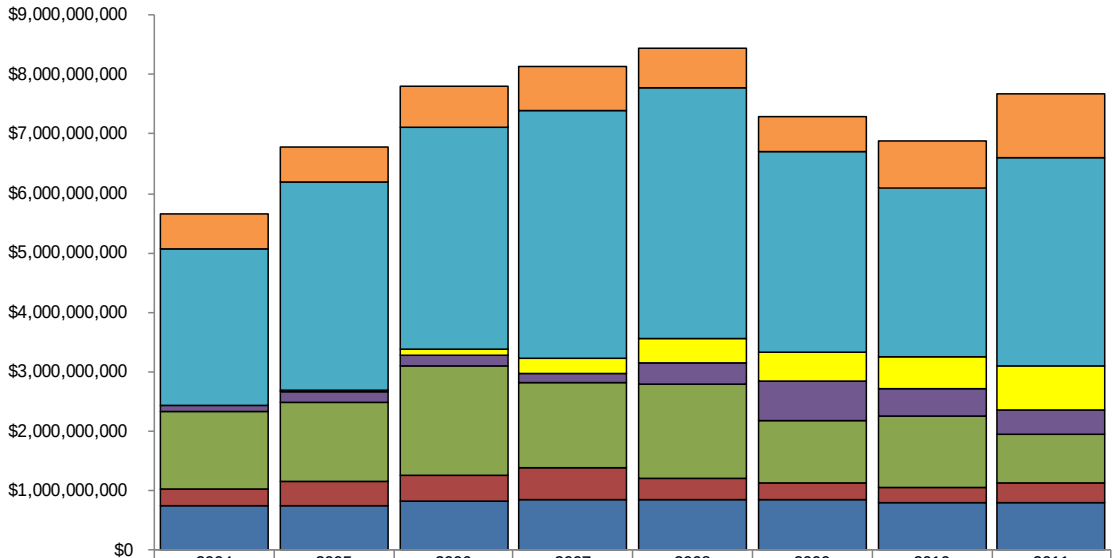
Department Expenditures



Sources: Department unaudited annual financial reports for fiscal years 2004 and 2011.

Figure 7

Department Expenditures
Fiscal Years 2004 through 2011



	2004	2005	2006	2007	2008	2009	2010	2011
Non-major Expenditures	$571,037,339	$590,981,522	$673,420,241	$726,398,077	$675,452,253	$587,778,170	$803,596,035	$1,058,703,755
Capital Outlay	$2,631,460,602	$3,512,164,586	$3,751,696,736	$4,162,953,911	$4,225,709,468	$3,379,928,546	$2,823,260,602	$3,498,930,839
Debt Service	$0	$11,587,486	$88,941,870	$258,972,270	$412,029,912	$491,056,246	$548,206,033	$743,637,433
Intergovern-mental Payments	$119,996,911	$192,884,646	$168,266,084	$159,482,787	$338,953,090	$651,387,152	$446,097,032	$422,024,786
Repairs and Maintenance	$1,297,413,953	$1,332,871,838	$1,849,091,314	$1,435,220,316	$1,598,807,914	$1,043,231,686	$1,218,031,442	$812,879,173
Professional Fees and Services	$283,702,835	$394,806,323	$449,265,545	$530,588,685	$345,748,701	$288,254,377	$244,165,707	$327,636,112
Salaries, Wages, and Payroll-related Costs	$740,823,816	$755,814,315	$813,574,376	$852,057,343	$856,268,889	$850,184,119	$805,151,826	$798,460,821

Sources: Department unaudited annual financial reports for fiscal years 2004 through 2011.

Toll Revenue

The State Highway Fund receives toll revenues from various state toll roads and toll revenue sharing agreements, including Camino Colombia in Laredo, Loop 49 in Tyler, and State Highway 45 Southeast in Austin. The Central Texas Turnpike System consists of three distinct elements in Austin and surrounding areas: State Highway 130, State Highway 45 North, and a portion of Loop 1. The Central Texas Turnpike System's toll revenues are restricted to the Central Texas Turnpike System's use in operations, construction, and debt service. Table 2 presents toll revenue reported for the State Highway Fund and the Central Texas Turnpike System for fiscal year 2007 through July 2012.

Table 2

Toll Revenue
State Highway Fund and Central Texas Turnpike System
Fiscal Years 2007 through 2012

Fiscal Year	State Highway Fund						Central Texas Turnpike System	Total for State Highway Fund and Central Texas Turnpike System
	Camino Colombia Toll Road (Laredo)	State Highway 121 (Dallas) [a]	Loop 49 (Tyler)	State Highway 45 Southeast (Austin)	State Highway 99 - Grand Parkway (Houston)	Total State Highway Fund		
2007	$ 0	$4,583,155	$108,808	$ 0	$ 0	$4,691,963	$16,743,690	$21,435,653
2008	$ 668,297	$8,400,990	$425,633	$ 0	$ 0	$9,494,920	$48,945,195	$58,440,115
2009	$ 428,168	$ 180,881	$566,619	$ 316,405	$ 0	$1,492,073	$66,362,310	$67,854,383
2010	$ 455,280	$ 21,619	$472,463	$2,402,387	$ 0	$3,351,749	$73,298,997	$76,650,746
2011	$1,352,200	$ (92)	$782,075	$3,977,141	$ 0	$6,111,324	$74,864,328	$80,975,652
2012 [b]	$1,681,684	$ 180	$953,273	$4,752,535	$913,912	$8,301,584	$ 0	$ 8,301,584

[a] The management of State Highway 121 moved from the Department to the North Texas Tollway Authority in 2009.

[b] Fiscal year 2012 amounts are through July 2012.

Source: The Department.

The Department also has the authority to enter into comprehensive development agreements with private investors to enable additional development; however, that authority has been reduced. The Department received up-front payments for operating agreements for State Highways 121 and State Highway 130. For financial reporting purposes, those funds are prorated over the life of the agreement and are included as revenues. Those funds are available to be appropriated; however, they are committed to be spent in the relevant region.

Toll Expenditures

The State Highway Fund is used to construct and maintain roads in Texas, including toll roads. The Department is authorized to use funds from any source for construction, operation, and maintenance of a toll facility of a public or private entity. The Texas Transportation Commission is required to collect repayment on private facilities. Table 3 shows expenditures for construction, operating expenses, and maintenance on toll roads in fiscal years 2007 through 2011.

Table 3

Expenditures for Toll Road Construction, Operating Expenses, and Maintenance
Fiscal Years 2007 through 2012

Fiscal Year	Toll Roads Other Than the Central Texas Turnpike System							Central Texas Turnpike System	Grand Totals
	Camino Colombia Toll Road (Laredo)	State Highway 121 (Dallas)	Loop 49 (Tyler)	State Highway 45 South East (Austin)	State Highway 99 - Grand Parkway (Houston)	Other Toll Projects [a]	Total		
2007	$ 419,922	$ 84,392,322	$11,915,220	$31,905,249	$ 0	$ 19,911,104	$148,543,817	$421,417,672	$569,961,489
2008	$ 448,820	$ 78,864,601	$ 7,458,253	$90,927,698	$ 0	$ 12,057,389	$189,756,761	$288,237,040	$477,993,801
2009	$3,294,082	$ 33,063,315	$ 2,360,604	$73,639,513	$ 103,561	$ 65,521,937	$177,983,012	$246,477,732	$424,460,744
2010	$ 478,962	$201,834,158	$20,428,181	$5,623,300	$ 537,429	$ 95,581,503	$324,483,533	$207,885,528	$532,369,061
2011	$ 616,851	$340,316,083	$17,616,975	$1,269,132	$3,178,858	$172,281,086	$535,278,985	$192,946,882	$728,225,867

[a] Including projects under construction at State Highway 130, Interstate 820, U.S. Highway 281, and Interstate 635.

Source: Transportation Program Expenditures, Fiscal Years 2007 – 2011, Department of Transportation, http://www.txdot.gov/inside-txdot/forms-publications/publications/finance/expenditures.html.

Cash Sources and Letting of Construction Contracts

The Department's cash forecast identifies sources of funds available for use in Department operations. As discussed above, the State Highway Fund's primary sources of funds available for operations are Motor Fuels Taxes and federal revenue. The Department also reports that bond proceeds, taxes and fees collected by the Texas Mobility Fund, and federal stimulus funds are available. Funds available from concession payments from State Highway 121 and State Highway 130 are also available but they are restricted to use in the regions where those highways are located.

The Department uses expected revenue sources to plan spending and, ultimately, to plan construction contract letting. Letting is the process of providing notice for bids, issuing and receiving proposals for projects, and awarding contracts. The Texas Transportation Commission may award, delay, or reject a contract based on recommendations from Department engineers. The amounts on contracts the Department lets in a specific period affect the Department's projected spending in future periods. Table 4 shows revenue sources and contract letting activity for fiscal years 2006 through 2011.

Table 4

Department Revenue Sources and Contract Letting Activity
Fiscal Years 2006 through 2011

Category	2006	2007	2008	2009	2010	2011
Revenue Sources						
State Highway Fund	$6,190,876,893	$5,098,864,215	$5,733,721,767	$5,740,719,681	$4,523,511,648	$4,797,442,271
Texas Mobility Fund - Bond Proceeds	1,115,475,793	1,839,899,606	1,277,328,340	645,797,862	248,828,710	174,221,216
Texas Mobility Fund - Taxes and Fees	64,099,104	137,098,787	208,846,299	261,397,789	282,829,959	292,048,712
Proposition 14 [a]	333,872,725	1,008,877,620	698,154,997	500,361,887	589,089,944	635,939,247
Proposition 12 [b]	0	0	0	0	0	286,479,426
State Highway 121 (surplus tolls)	0	0	158,406,156	532,480,536	292,405,687	307,537,835
State Highway 130 (Segments 5 and 6)	0	0	0	0	0	6,027,947
Federal Economic Stimulus (American Recovery and Reinvestment Act)	0	0	0	47,015,796	766,157,548	837,738,494
Build America Bond Subsidies	0	0	0	0	13,704,071	59,016,212
General Revenue - Debt Service	0	0	300,000,000	0	15,675,730	15,598,246
General Revenue	0	0	0	6,654,168	2,304,983	1,137,644
Totals	$7,704,324,515	$8,084,740,228	$8,376,457,559	$7,734,427,719	$6,734,508,280	$7,413,187,250

Department Revenue Sources and Contract Letting Activity Fiscal Years 2006 through 2011						
Category	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Contract Letting Activity						
Traditional Letting - State Highway Fund	$2,839,498,005	$2,564,310,573	$2,452,377,184	$1,525,402,068	$1,650,579,965	$2,093,262,157
Comprehensive Development Agreements	0	0	0	585,000,000	585,000,000	489,000,000
Conversions	(935,892,882)	0	785,794,578	0	(136,193,751)	(63,806,249)
Texas Mobility Fund	1,614,141,997	223,088,348	272,742,323	0	3,988,832	298,717,629
Conversions	935,892,882	0	(695,794,578)	0	0	0
Proposition 14 [a]	834,810,051	1,029,515,137	35,794,829	300,936,080	596,699,992	339,189,995
Conversions	0	0	(90,000,000)	0	136,193,751	63,806,249
Proposition 12 [b]	0	0	0	0	432,136,301	555,658,734
State Highway 121	0	0	253,379,338	272,801,957	138,542,739	302,627,396
State Highway 130 (Segments 5 and 6)	0	0	8,279,334	0	0	0
Federal Economic Stimulus (American Recovery and Reinvestment Act)	0	0	0	478,953,183	1,180,826,386	89,523,699
Totals	$5,288,450,053	$3,816,914,058	$3,022,573,008	$3,163,093,288	$4,587,774,215	$4,167,979,610

[a] Proposition 14, also known as the Texas Highway Improvement Act, was approved by voters in 2003. Proposition 14 bonds are Revenue Bonds backed by the State Highway Fund.

[b] Proposition 12 was a constitutional amendment passed by voters in 2007. Proposition 12 bonds are General Obligation Bonds of the State of Texas.

Sources: Department of Transportation cash forecasts for April 2010, April 2011, and April 2012.