Pennsylvania Turnpike Commission
Act 44 Financial Plan
Fiscal Year 2014

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Submitted to:
Secretary of the Budget,
Commonwealth of Pennsylvania

Submitted by:
Pennsylvania Turnpike Commission

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I. Summary

Summary

An act of the General Assembly of Pennsylvania, approved on July 18, 2007, P.L. 169, No 44 ("Act 44") , expanded the Pennsylvania Turnpike Commission's ("PTC" or the "Commission") mandate from one focused entirely on constructing, operating and improving the Pennsylvania Turnpike to one that also provides annual funding contributions for broader Commonwealth transportation needs. Since Act 44's passage the Commission has fully met its obligations by providing a total of $3.85 billion in funding support for Commonwealth transportation needs through payments under a Lease and Funding Agreement (the "Funding Agreement"), dated October 14, 2007, with the Pennsylvania Department of Transportation ("PennDOT"). The Commission has primarily financed its Act 44 commitments to the Commonwealth through the issuance of Subordinate Revenue Bonds and Subordinate Special Revenue Bonds with $4.3 billion in currently outstanding debt. Beginning in fiscal 2013, the Commission undertook a program to cash fund a portion of its Act 44 obligations using cash in its General Reserve Fund. Future cash contributions will be based on the Commission's cash flow and its need to maintain a sufficient General Reserve Fund balance.

The provisions of Act 44 and the Funding Agreement require that the PTC provide a financial plan to the Secretary of the Budget on or before June 1 of each year that describes the Commission's proposed operating and capital expenditures, borrowings, liquidity and other financial management covenants and policies, estimated toll rates and all other revenues and expenditures for the ensuing fiscal year. Act 44 provides that the financial plan shall demonstrate that the operation of the Commission can reasonably be anticipated to result in having sufficient funds to make payments due to PennDOT pursuant to the Funding Agreement and Act 44 during the ensuing and future fiscal years. It is important to note that the financial plan does not cover the funding needs for the Mon/Fayette or the Southern Beltway projects, which are separately financed by certain dedicated tax sources. This report, which was prepared by the PFM Group ("PFM") for the Commission, is submitted in compliance with the financial plan requirements of Act 44 and the Funding Agreement.

Similar to other toll road agencies, the Commission continues to contend with the effects of the slow economic recovery and volatile motor fuel prices. Nevertheless, during this time, the Commission fully met its Act 44 obligations and progressed with its capital plan. Reflecting the importance and economic strength of the Turnpike, fiscal 2013 transactions are estimated to decline slightly despite the combination of sluggish economic conditions and the imposition of toll increases consisting of 10% on cash customers in January 2012 and 10% on cash customers and 2% on E-ZPass customers in January 2013. Fiscal 2013 operating expenses are estimated to be 0.7% below budget at $324.5 million due to a continuation of cost containment measures. While toll revenues are projected to come in lower than last year's plan, this was more than offset by lower than expected operating and debt service costs. The Senior Revenue Bond debt service coverage ratio for fiscal 2013 was 3.76x, which was higher than the 3.51x coverage ratio anticipated in last year's plan. Subordinate Revenue Bond and Subordinate Special Revenue Bond debt service coverage ratios of 1.74x and 1.60x, respectively were also higher than last year's plan.

The fiscal 2014 financial plan reflects the full year effects of the January 2013 toll increase and the partial year impacts of a January 2014 toll increase. Pursuant to a July 19, 2011 resolution the Commission approved an overall toll increase averaging 3% for 2014. Fiscal 2014 operating expenses are projected to increase by 4% to $337.5 million. This is in line with PTC's financial planning goal. Where possible, the Commission is actively managing its operations to limit the rate of growth in those operating costs directly under its control. However, significant portions of the Commission's operating budget are beyond its ability to control. These external cost drivers include the Commission's mandated contribution to the State Employees Retirement System ("SERS"), the Commission's contribution amount to the Pennsylvania State Police and increased costs associated with third-party health benefits for PTC employees. Combined, these three cost drivers account for $9 million of the PTC's projected $13 million increase in its fiscal 2014 operating budget.

The financial plan estimates PTC is expected to generate the necessary resources to: (i) meet Turnpike operations and maintenance expenses; (ii) pay debt service obligations; (iii) support capital reinvestment of $613.4 million (which is consistent with ten year capital plan); and (iv) provide $450 million in contributions required to meet its Act 44 obligations. Fiscal 2014 debt service coverage on the Commission's Senior Revenue Bonds, Subordinate Revenue Bonds and Subordinate Special Revenue Bonds is projected to be 2.82x, 1.39x and 1.28x, respectively and is consistent with the Commission's targeted debt service coverage ratios. Projected fiscal 2014 debt service coverage ratios are somewhat higher than those forecasted in last year's plan due to slightly more favorable financing assumptions.

PTC's mandate under Act 44 means the Commission has taken on greater financial responsibilities to fund $450 million annually in Commonwealth highway and transit needs. Meeting these obligations have required the Commission to: 1) significantly increase its debt levels to finance Act 44 payments; 2) implement a regular schedule of toll increases on the Turnpike; and 3) pursue an aggressive cost containment program to manage expense growth.

At the same time the Commission has been progressing with its ten year capital plan to accelerate initiatives to improve and maintain the Turnpike in a state of good repair, ensure customer safety and convenience and address capacity constraints. Over the fiscal 2014-2023 periods, the proposed capital plan calls for nearly $6.8 billion in spending and advances: 1) the Stage 1 design and construction of the I-95 Interchange Project; 2) provides for the implementation of All Electronic Tolling ("AET"); 3) advances the Commission's efforts for total roadway reconstruction and resurfacing, and 4) continues the rehabilitation or replacement of structurally deficient bridges.

While PTC continues to meet its Act 44 funding obligations and provide for the Turnpike's state of good repair, Commonwealth policymakers have recognized that the Commission must fund these major commitments by relying upon a significant amount of debt. As a result, there is an on-going debate among Commonwealth policymakers whether to maintain, modify or discontinue the current PTC transportation funding requirements under Act 44.

As part of a comprehensive transportation funding initiative, Governor Corbett has proposed the termination of the Commission's Act 44 payments by fiscal 2023 and the repurposing of the distribution of payments to PennDOT between fiscal 2014 and 2023. The Governor's proposal also calls for a $1.8 billion funding package for transportation, which would include additional resources to the Commission for the continued construction of the Mon/Fayette and Southern Beltway projects. In addition, State

Senator John Rafferty, Senate Transportation Committee Chairman, has introduced a comprehensive $2.5 billion transportation funding bill which also includes elimination of the Commission's Act 44 obligations by fiscal 2021. As of the publication of this year's Act 44 financial plan, the final scope and timing for these proposed initiatives are unknown. The Commission plans to amend its financial plan, if legislation is enacted that alters the PTC's Act 44 funding obligations.

In addition to the Commission's efforts to fund its Act 44 and Turnpike commitments and maintain financial flexibility, PTC has also undertaken measures to increase oversight and improve the transparency of its business processes. Following a grand jury investigation that began in 2009, criminal charges were filed in March 2013 against six former Commission officials and employees regarding the awarding of PTC contracts and related issues.

In response to the then on-going grand jury investigation and beginning in fiscal 2011, the Commission implemented numerous measures to prevent future improprieties and assure compliance with strict standards of conduct. These measures included: 1) revamping its procurement process with a greater focus on transparency and accountability; 2) establishing an Office of Compliance staffed with a Chief Compliance Officer who has been provided adequate staffing and resources to implement its mandate; 3) implementing a new professional services procurement policy and employee code of conduct; and 4) undertaking a thorough review of existing professional services contracts. The Commission plans to convene a special advisory group to review and critique current policies and procedures relating to contracting and business practices to identify where continued improvements can be made and research best practices at peer agencies to learn from their experiences and protocols.

The long range financial plan reflects the Commission's commitment to operate and maintain its toll facilities, support a Turnpike capital investment program at levels consistent with the ten year plan spending levels adjusted for inflation, and fully fund its Act 44 obligations. At the same time the financial plan assumes the Commission will maintain debt service coverage ratios of at least 2.0x on annual debt service for its Turnpike Senior Revenue Bonds, 1.30x on combined debt service for its Turnpike Senior Revenue and Subordinate Revenue Bonds and 1.20x for all three of its liens. In addition, a liquidity level equal to at least 10% of operating revenues is assumed to be maintained. These coverage and liquidity targets reflect the Commission's goal to maintain financial flexibility consistent with its credit ratings. To meet these operating, capital and Act 44 obligations and maintain these coverage and liquidity ratios, the financial plan assumes Turnpike traffic and toll rates will increase at levels sufficient to comply with these parameters and that traffic volumes will be consistent with the levels forecasted by the PTC's outside traffic consultant. As part of the Act 44 financial planning process, the Commission will annually review underlying economic conditions and traffic in order to establish toll rates to meet its goals. Further, PTC will continue its efforts to manage operating cost growth to a 4% annual rate through on-going cost containment and efficiency measures.

The PTC will continue to regularly access the capital markets to both finance its own capital needs and meet Act 44 payment obligations. Between fiscal 2014 and 2023, the Commission is expected to issue $10.2 billion in debt (including issuance and reserve costs). Debt issued to support Turnpike capital needs in this year's proposed capital plan over the next ten years is projected to be $ 5.9 billion, while debt issued to support Act 44 payment obligations is expected to be $4.3 billion during this period.

The Commission will continue its strategy to fund some of the Act 44 transit operating support obligation via cash contributions. At the same time a portion of current year cash will fund a portion of the Turnpike capital needs on a pay-as-you-go basis and maintain sufficient liquidity in its General Reserve Fund.

Over the course of the 2014-2057 year financial plan period, PTC debt issuance is expected to total $35.7 billion. Total debt issuance assumed in this year's long-term financial plan includes $24.3 billion for Turnpike capital needs and $11.4 billion to finance Act 44 obligations. It is important to note that while the Turnpike's debt burden is projected to increase, debt issuance is spread over several decades, providing a degree of financial flexibility. Debt service coverage of the Turnpike Senior Revenue Bonds is projected to be at least 2.14x through fiscal 2057, while debt service coverage of Turnpike Subordinate Revenue Bonds and Subordinate Special Revenue Bonds is at least 1.36x and 1.20x, respectively through fiscal 2057.

While PTC's financial plan is based on reasonable financial assumptions, it is important to recognize that there are inherent uncertainties in projecting resources and obligations over a 43 year time period. Downside risks to the financial plan include lower than expected traffic and toll revenues, higher interest and inflation rates and/or greater than projected operating and/or capital cost increases. In the near term, the financial plan accounts for the effects of the gradual economic recovery. To accommodate these risks, the financial plan requires the PTC to maintain strong debt service coverage and preserve internal liquidity. Nevertheless, it is also important to assess how the combination of downside risks may impact the financial plan and to identify remediation measures the Commission could implement to maintain fiscal stability. PTC will monitor its performance relative to the financial plan, and take corrective action if costs are higher and/or toll revenues are less than projected. While such a scenario may call for further adjustments in toll rates, the Commission will explore strategies to contain cost growth or reprioritize capital initiatives to manage the level of toll rate adjustments and maintain fiscal stability.

As the Commission continues to meet its Turnpike and Act 44 financial obligations over the course of fiscal 2014, it will continue its ongoing activities to refine and strengthen its financial plan, including:

- **Traffic and Revenue Forecasts:** PTC updated its Turnpike revenue projections in March 2013 based on its traffic consultants' assessment of recent economic conditions and their expected long term impact on traffic demand. PTC conducts an on-going analysis of its traffic and revenue trends to develop a toll rate setting strategy that balances the need to generate the required revenues to meet Turnpike obligations, as well as Act 44 payments, with the implementation of an equitable toll rate paid by customers that does not cause undue diversions to non-tolled highways. The Commission is also pursuing a strategy to convert the Turnpike's toll collection to an AET system. To date the Commission has undertaken an initial feasibility study and has procured the services of an AET program management consultant. As part of the development of the AET strategy, the Commission will identify AET toll rate setting and operations strategies that both provide pricing flexibility and protect the generation of toll revenues so that the PTC will continue to meet its Turnpike and Act 44 obligations while maintaining financial flexibility. The Act 44 financial plan includes the capital costs for AET implementation. However, given that the AET toll setting and operating strategies are in the initial phases of development, the financial plan does not reflect toll revenue and operating cost impacts associated with an all-electronic tolling strategy.

- **Operations and Maintenance Cost Strategies:** During the course of the fiscal year, the Commission will continue its efforts to provide recurring savings and operating efficiencies that control operating cost growth.

- **Capital Planning:** To meet the travel needs of its customers and generate the necessary revenues to meet its obligations, PTC is committed to maintaining and improving its capital assets, and providing sufficient capacity to meet future traffic demand. The Commission has a well-established ten year capital planning effort for the Turnpike. PTC has proposed a $6.8 billion fiscal 2014-fiscal 2023 ten year capital plan.

- **Financing Initiatives:** Using this year's financial plan as a guide, the Commission will evaluate alternative structures that facilitate cost effective financing, meet the PTC's and Commonwealth's transportation needs and preserve fiscal stability.

II. Serving the Commonwealth's Mobility Needs

Serving the Commonwealth's Mobility Needs

The Pennsylvania Turnpike Commission ("PTC" or the "Commission") serves an integral role in meeting Pennsylvania's mobility needs. Since 1940 the Commission has been responsible for the construction, operation and maintenance of the Pennsylvania Turnpike, a system now encompassing 553 route miles (the "Turnpike"). The Turnpike's facilities include the 359 mile east-west Mainline traversing the southern portion of Pennsylvania that connects with the New Jersey Turnpike in the east and the Ohio Turnpike in the west; the 110 mile north-south Northeastern Extension; the 18 mile north-south Beaver Valley Expressway; the 13 mile Amos K. Hutchinson Bypass near the New Stanton Interchange; completed segments of the Mon/Fayette project totaling 47 miles in length; and a six mile segment of the Southern Beltway.

As an instrumentality of the Commonwealth, the Commission's governance structure is composed of members who are responsible to Turnpike customers, elected officials and policy makers. The Commission is governed by five members, including the Pennsylvania Department of Transportation ("PennDOT") Secretary. Commission members, excluding the PennDOT Secretary, are appointed by the Governor with the advice and consent of at least two-thirds of the Senate and are appointed for a term of four years. At present, there is one vacancy pending the Governor's appointment and confirmation of the Senate. The members of the Commission select among themselves the Chairman, Vice Chairman and Secretary/Treasurer. While the Commission members are responsible for establishing policy and providing oversight, the Chief Executive Officer is responsible for carrying out the Commission's policies and directions and day-to-day management. The Chief Executive Officer is supported by a senior staff consisting of the Chief Operating Officer, Chief Financial Officer, Chief Engineer, Chief Counsel and Chief Compliance Officer. PTC carries out its operations with a staff of 2,135 employees.

By fostering access and facilitating economic development, the PTC has benefited from significant traffic demand since the initial segment of the Turnpike opened in 1940. Reflecting the mature travel market PTC now serves, traffic demand has increased by 0.5% annually between fiscal years 2003 and 2013. Despite the effects of the recession, volatile motor fuel prices and recent annual toll rate increases beginning in fiscal 2009; traffic demand has remained stable, reflecting the economic strength and importance of the Turnpike. With the full year effect of the January 2012 and partial year impact of the January 2013 increases as well as a slow recovery in economic conditions, PTC estimates fiscal 2013 transactions will decline slightly to 188.7 million while toll revenues will grow 3.9%.

Passenger vehicles represent 87% of Turnpike traffic, while commercial vehicles (mostly trucks) comprise the balance. Reflecting the PTC's strategy to charge trucks a toll more commensurate with greater maintenance requirements to accommodate these vehicles, the Commission receives 42% of its toll revenues from commercial vehicles and 58% from passenger vehicles.

To provide and maintain high quality transportation infrastructure for its customers and preserve the Turnpike's economic competitiveness, the PTC continues to implement its ten year $6.8 billion capital improvement program that features the Stage 1 design and construction of the I-95 Interchange Project, the implementation of AET roadway resurfacing and total reconstruction programs and, the rehabilitation or replacement of structurally deficient bridges.

Reflecting the growing acceptance of electronic tolling, E-ZPass market share increased to 66% of revenues in fiscal 2012 from 59% in fiscal 2008. PTC has also embarked on installing unmanned E-ZPass-only slip ramps to provide greater access and reduce congestion at busier Turnpike interchanges. To date, PTC has installed Express E-ZPass lanes at five interchanges that permit electronic toll-paying customers to travel through the toll plaza at highway speeds.

The combination of a stable travel market, periodic toll increases, capital reinvestment and a good financial management track record have allowed the PTC to maintain a strong financial position. Since fiscal 2008, debt service coverage of its Senior Revenue Bonds has been at least 2.26x, while, combined Senior, Subordinate and Subordinate Special Revenue debt service coverage has been at least 1.78x. After meeting all Turnpike-related obligations, PTC had an ending General Reserve Fund balance in fiscal 2012 of $278.4 million which exceeded the Commission's liquidity policy. Nevertheless, as described in detail in the following sections, meeting Act 44's mandates and preserving the PTC's financial flexibility requires prudent and proactive management of toll rate setting, revenue collection, operations and maintenance expenses, debt issuance and capital investment.

Act 44 and PTC's Expanded Mandate

Act 44 (P.L. 169) expanded the PTC's mandate from one focused on constructing, operating and improving the Turnpike to one that also includes providing annual funding contributions for broader Commonwealth transportation needs. Commission payment obligations for highways and bridges are deposited into the Commonwealth's Motor License Fund, while payments for operating assistance for transit are deposited into the Public Transportation Trust Fund. The PTC's contributions are in addition to certain dedicated taxes and fees received by these two funds.

Act 44 and the Funding Agreement also provided the framework for PennDOT and the Commission to convert I-80 to a toll road, pending approval from the United States Department of Transportation ("USDOT"). However, following USDOT's rejection of PennDOT and the Commission's application to toll I-80, the Commission's Act 44 funding obligation was reduced to a fixed annual amount of $450 million ($250 million for transit and $200 million for roads and bridges beginning in fiscal 2011). Exhibit 1 presents the Commission's annual funding obligations under Act 44,

Exhibit 1
Pennsylvania Turnpike Commission
Act 44 and Funding Agreement
Annual Funding Requirements
($ in Millions), Fiscal Year End 5/31

Fiscal Year	Highways and Bridges Capital	Transit			Total Act 44 Funding
		Operating	Capital	Subtotal	
2008	$450	$250	$50	$300	$750
2009	$500	$250	$100	$350	$850
2010	$500	$250	$150	$400	$900
2011-2057(*)	$200	$250	$0	$250	$450

(*) Lower funding requirements beginning in fiscal 2011 reflect USDOT's decision not to permit tolling of I-80

Based on the recommendations of the Transportation Funding Advisory Commission (the "TFAC"), the Governor's transportation funding proposal includes shifting the Commission's payments to PennDOT primarily to public transportation purposes and ending PTC's Act 44 funding obligations by fiscal 2023. As part of its financial planning process, the Commission continues to evaluate the financial impacts of proposals that change its Act 44 funding obligations.

PTC's payment obligations under the Funding Agreement are provided by Subordinate Revenue and Subordinate Special Revenue Bond proceeds and pay-as-you-go contributions. The bonds are secured by payments derived from the General Reserve Fund and are defined as being subordinate to payments required for Turnpike operations, maintenance, capital improvements and debt service. Payments are due to PennDOT in equal quarterly installments on the last business day of July, October, January, and April.

As described in more detail in subsequent sections of this financial plan, PTC has issued debt on a tax-exempt and to a lesser extent on a taxable basis to finance its Act 44 payment obligations. A key assumption for PTC is that the roads and bridges portion of each payment to PennDOT will be used primarily for long life capital projects so as to maximize the use of tax-exempt debt. As Turnpike revenues grow reflecting future years' toll increases and projected traffic growth, PTC's goal is to ultimately fund its Act 44 payment obligations from cash.

Act 44 and the Funding Agreement, in combination with the PTC's financing structure, provide the Commission with a number of tools to meet its payment obligations. These are summarized below and are more fully described in the following sections of the financial plan.

- **General Reserve Fund:** After meeting Turnpike capital needs and maintaining minimum liquidity requirements together with the Reserve Maintenance Fund equal to at least 10% of that year's total operating revenues, cash from the General Reserve Fund can be used to fund Act 44 payment obligations.

- **Senior Revenue Bonds:** Given PTC's multi-year capital needs and the long useful life of major capital improvements, the Commission debt finances a substantial portion of its capital improvement program. The Senior Revenue Bonds are payable from the net toll revenues of the Turnpike.

- **Subordinate Revenue Bonds:** Since amounts in the General Reserve Fund are not expected to be sufficient to fully fund, on a cash basis, the PTC's Act 44 payment obligations in any given year, the Commission will likely debt finance the majority of these payments for an extended period. The Subordinate Revenue Bonds are secured by payments from the General Reserve Fund, known as Commission Payments, and may be used to finance both transit and highway and bridge obligations.

- **Subordinate Special Revenue Bonds:** Similar to the Subordinate Revenue Bonds, the Subordinate Special Revenue Bonds are issued to help finance Act 44 annual payment obligations. Act 44 authorizes a total of $5 billion of bonds to be toll-supported, but credit-enhanced by the Commonwealth's Motor License Fund to finance only highway and bridge obligations. Called "Special Revenue Bonds" in Act 44, these obligations may be issued in amounts of up to $600 million per year. The Subordinate Special Revenue Bonds are paid from Commission Payments, but are junior to the Commission's Subordinate Revenue Bonds. To the extent Commission Payments are not sufficient to make a scheduled deposit for debt service, certain available Motor License Fund resources would make up the deficiency. PTC would be responsible for reimbursing any advances from the Motor License Fund over time.

III. Fiscal 2013 Activities

Fiscal 2013 Activities

PTC continued to meet its funding commitments in full and on time during the sixth year of Act 44, providing $450 million to the Commonwealth. As the Commission carries out its Act 44 responsibilities, it also continues its efforts to maintain and improve the Turnpike. It is important to note that the PTC met its obligations in the midst of a slow economic recovery and managed its financial pressures through cost containment measures. Credit market conditions continued to improve last year with a favorable interest rate environment. PTC continues to pursue debt structures to yield the lowest possible costs as evidenced by its selective use of floating rate notes and thirty year fixed rate Subordinate and Subordinate Special Revenue bond structures that took advantage of historically low interest rates while maximizing investor demand.

Meeting Act 44 and Turnpike funding commitments in a constrained financial environment requires carefully managing financial obligations while maintaining fiscal balance and flexibility. As part of the Act 44 financial planning process, the Commission evaluates alternative tolling, operating cost, capital program and debt financing strategies to meet its obligations in a cost-effective and prudent manner. The ability to continually review and, as appropriate, adjust strategies throughout the term of the Funding Agreement provides the Commission with the necessary flexibility to adapt to changing market conditions.

Turnpike Operations and Capital Program

PTC toll revenues after commercial discounts and electronic toll collection adjustments are estimated to have grown 3.9% in fiscal 2013, to $811.0 million. The average toll paid per transaction equaled an estimated $4.30. Fiscal 2013 toll revenues are projected to be 1.2% lower than what was assumed in last year's financial plan due to the slower than expected economic recovery and greater than expected E-ZPass participation (see Exhibit 2). Total transactions for the entire fiscal year are estimated to have declined by 0.2%to 188.7 million. It is important to note the economic strength of the Turnpike relative to unemployment and volatile gasoline prices. According to the Bureau of Labor Statistics, the Commonwealth's unemployment rate decreased from 7.8% in April 2012 to 7.6% in April 2013. Gasoline prices within the East Coast, according to the Energy Information Administration, have varied significantly over the past fiscal year from a low of $3.49 per gallon in December 2012 to a high of $3.90 per gallon in April 2012. Fuel prices moderated in April 2013 at $3.56 per gallon. Total Turnpike revenues, which include toll revenues and other income derived from service plazas and transponder sales, grew an estimated 3.5% to $832.1 million – 1.2% less than levels assumed in last year's plan, while interest income increased by 18.4% compared to fiscal 2012.

Exhibit 2
Fiscal 2013 Estimated Turnpike Results Compared to Last Year's Financial Plan
($000) Fiscal Year End 5/31

		2013 Financial Plan			
	2012	Current Estimate	Prior Plan	% Diff 2012	% Diff Prior Plan
Turnpike Operating Income					
Adjusted Gross Toll Revenues	780,798	811,003	820,715	3.9%	-1.2%
Gross Non-Toll Revenues	23,090	21,061	21,061	-8.8%	0.0%
Gross Operating Revenues	803,888	832,064	841,776	3.5%	-1.2%
Operating Expense	309,828	324,500	326,679	4.7%	-0.7%
Interest Income	11,975	14,184	5,415	18.4%	161.9%
Net Turnpike Revenues	506,035	521,748	520,512	3.1%	0.2%
Turnpike Senior Revenue Bonds Debt Service	145,906	138,676	148,220	-5.0%	-6.4%
Net Income Before Capital Expense and General Reserve	360,129	383,072	372,293	6.4%	2.9%
Turnpike Working Capital					
Cash Beginning Balance	75,203	197,983	184,703	163.3%	7.2%
Construction Fund Beginning Balance	438,343	125,775	114,430	-71.3%	9.9%
Newly Sized Senior Bond Proceeds	-	390,003	345,758		-11.3%
Previously Unused Senior Bond Proceeds Used	312,569	125,875	114,430	-59.7%	10.0%
Current Senior Bond Proceeds Used	-	254,808	345,758		-26.3%
Construction Fund Ending Balance	125,775	135,095	-	7.4%	
Net Income	360,129	383,072	372,293	6.4%	2.9%
Capital Expenditure	425,164	575,234	575,234	35.3%	0.0%
PAYGO	112,595	194,551	115,047	72.8%	69.1%
Federal Fund Reim.	9,237	12,200	12,200	32.1%	0.0%
Capital Expenditure Reconciliation	6,953	(1,671)	-	-124.0%	
Liquidity Requirement	80,389	83,206	84,178	3.5%	-1.2%
Liquidity Requirement Cashflow Set-aside	4,525	2,818	3,881	-37.7%	-27.4%
Tax-Exempt Subordinate Bonds Debt Service	118,273	152,242	147,400	28.7%	3.3%
Taxable Subordinate Bonds Debt Service	12,440	12,428	12,428	-0.1%	0.0%
Subordinate Special Revenue Bonds Debt Service	10,063	27,722	23,592	175.5%	17.5%
Subordinate and Sub Special Rev DSRF Earnings	4,358	6,728	4,092	54.4%	64.4%
Net Funds Remaining Before Act 44 Payments	197,983	208,551	270,940	5.3%	-23.0%
Debt Service Coverage Ratios					
Senior Revenue Bonds					
Pledged Revenues	506,035	521,748	520,512		
Debt Service	145,906	138,676	148,220		
Coverage	3.47 x	3.76 x	3.51 x		
Subordinate Revenue Bonds					
Pledged Revenues	509,831	527,914	524,270		
Debt Service	276,619	303,345	308,047		
Coverage	1.84 x	1.74 x	1.70 x		
Subordinate Special Revenue Bonds					
Pledged Revenues	510,393	528,475	524,604		
Debt Service	286,682	331,067	331,640		
Coverage	1.78 x	1.60 x	1.58 x		

Note: Pledged revenues include net revenues and debt service reserve fund interest earnings attributable to each lien

Projected operating expenses increased an estimated 4.7% over fiscal 2012 and are 0.7% below Commission's budget due to a continuation of cost containment measures. Operating expense growth exceeded the Commission's 4.0% annual goal because of additional expenses related to an accounting adjustment for E-ZPass transponders. Debt service coverage ratios were higher than last year's plan reflecting the combination of lower operating expenses and debt service expense which was attributable to an overall favorable interest rate environment.

Turnpike capital outlays are estimated at $575.2 million for fiscal 2013, which is in line with the prior fiscal year's plan. Major initiatives undertaken include:

- Highway improvements encompass the design and reconstruction of the Turnpike Mainline and addition of a third lane in all reconstruction activities. To date, PTC has completed reconstruction of 102 miles of the Mainline with most of these sections widened to six lanes. Approximately another 8 miles are currently in construction.

- Bridge projects are focused on the rehabilitation or replacement of bridges that are classified as structurally deficient. While this measure is an indication of a bridge's structural soundness it does not imply the facility is unsafe. Of the 68 bridges identified as structurally deficient 16 are currently being replaced or repaired and four are identified for replacement or repair in the Commission's capital plan.

- Equipment and facilities improvements including repair and replacement of maintenance facilities and redevelopment of service plazas.

- The fleet program includes the purchase of rolling stock to insure adequate maintenance of the roadway system.

- Information technology includes toll collection projects, communication, application development and technical operational needs.

Act 44 Activities

Exhibit 3 shows that the Commission met its fiscal 2013 Act 44 obligations through the issuance of Subordinate Revenue Bonds and Subordinate Special Revenue Bonds and a $50 million pay-as-you go contribution. Of the $450 million in Act 44 payments made, $200 million was for roads and bridges projects and $250 million for public transit operations. PTC made quarterly payments of $112.5 million on July 30, 2012, October 30, 2012, January 30, 2013 and April 29, 2013.

After meeting Turnpike and Act 44 obligations, the Commission's General Reserve Fund ending balance is estimated to be $241.7 million. The General Reserve Fund balance for fiscal 2013 is 20.8% lower than the amount projected in last year's plan due in part to the application of a portion of the fund towards pre-funding OPEB obligations. Nevertheless, it is important to note that the General Reserve Fund balance significantly exceeds the amount required under the Commission's policy. The General Reserve Fund is a source funds for Act 44 payments and the capital plan. Consequently, the balance is expected to moderate over the medium term.

Exhibit 3
Fiscal 2013 Estimated Act 44 Payments Compared to Last Year's Financial Plan
($000) Fiscal Year End 5/31

		2013 Financial Plan			
	2012	Current Estimate	Prior Plan	% Diff 2012	% Diff Prior Plan
Act 44 Payment Funds					
Turnpike Net Income Before Act 44 Payments	197,983	208,551	270,940	5.3%	-23.0%
Tax-Exempt Subordinate Bond Proceeds	250,000	200,000	200,000	-20.0%	0.0%
Taxable Subordinate Bond Proceeds	-	-	-		
Subordinate Special Revenue Bond Proceeds	200,000	200,000	200,000	0.0%	0.0%
Act 44 Payments					
Roads & Bridges Payments	200,000	200,000	200,000	0.0%	0.0%
Roads & Bridges Total Sources	200,000	200,000	200,000	0.0%	0.0%
Tax-Exempt Subordinate Bond Proceeds	-	-	-		
Subordinate Special Revenue Bond Proceeds	200,000	200,000	200,000	0.0%	0.0%
Transit Operations Payments	250,000	250,000	250,000	0.0%	0.0%
Transit Operations Total Sources	250,000	250,000	250,000	0.0%	0.0%
Turnpike Cash	-	50,000	50,000		0.0%
Tax-Exempt Subordinate Bond Proceeds	250,000	200,000	200,000	-20.0%	0.0%
Taxable Subordinate Bond Proceeds	-	-	-		
Total Act 44 Payments	450,000	450,000	450,000	0.0%	0.0%
Total Act 44 Sources	450,000	450,000	450,000	0.0%	0.0%
Remaining Turnpike Cash	197,983	158,551	220,940	-19.9%	-28.2%
General Reserve Fund/Liquidity Requirement	278,372	241,758	305,118	-13.2%	-20.8%

Planning Activities

CDM Smith, PTC's traffic and revenue consultant, updated its traffic and revenue forecast for the Turnpike in March 2013 to account for the annual toll increases implemented between 2009 and 2013, planned additional increases and projected economic conditions. On-going cost containment measures have allowed the Commission to cap annual expense growth generally around the 4% target. As the Commission is progressing with its proposed $6.8 billion ten-year Turnpike capital plan, the PTC continues to examine strategies to reduce project costs, take advantage of favorable construction bidding conditions and prioritize initiatives so that the most critical projects are pursued in the near term.

Challenges

While PTC has achieved a number of important accomplishments since the passage of Act 44, the Commission is facing a number of challenges as it undertakes its responsibilities. Specifically, these challenges center on managing increasing obligations while maintaining financial flexibility and navigating a still uncertain economic environment.

Managing Increasing Obligations

PTC's expanded mandate under Act 44 means the Commission has taken on greater financial responsibilities to help fund the Commonwealth's highway, bridge and transit needs. To date, the Commission has primarily met its Act 44 obligations through the issuance of Subordinate and Subordinate Special Revenue Bonds with $4.3 billion currently outstanding and expects to continue to debt finance a significant portion of these commitments over an extended period. The PTC also has a well-established track record of executing large capital initiatives while maintaining financial flexibility.

Standard and Poor's and Fitch affirmed their 'A+' ratings on the Senior Revenue Bonds and 'A-' ratings on the Subordinate Revenue Bonds in fiscal 2013. While Moody's downgraded the Senior Revenue Bonds to 'A1' with a Stable Outlook from 'Aa3' due to the projected increase in leverage, the rating agency maintained its 'A3' rating on the Subordinate Bonds and moved the outlook to Stable from Negative. Moody's ratings on the Senior and Subordinate Bonds are consistent with those assigned by Standard and Poor's and Fitch. The ratings on the Senior and Subordinate Bonds by all three rating agencies consider the strength of the travel market served by the Turnpike, its well managed financial operations, and strong debt service coverage. Key credit concerns center on the Commission's Act 44 and ten-year capital plan obligations, growing debt and potential for declining debt service coverage.

Moody's and Fitch have also respectively assigned their 'A1' and 'AA' ratings to the Commission's Subordinate Special Revenue Bonds. While Moody's and Fitch recognize, the economic strength of the Turnpike, their ratings are primarily based on the back-up pledge of the Motor License Fund and the Commonwealth's general obligation rating. Moody's downgraded the Subordinate Special Revenue Bonds to 'A1' from 'Aa3' in fiscal 2013 at the time it downgraded the Commonwealth's general obligation rating. Both Moody's and Fitch maintain a Stable Outlook on the bonds reflecting their assessment of the Commonwealth's credit quality.

To meet the challenges of managing increasing financial obligations, the PTC has a financial planning process to track toll revenues and develop financing strategies to meet the Commission's ongoing Turnpike and Act 44 obligations while maintaining sufficient fund balances that provide internal liquidity to meet unexpected short term needs. As part of this effort, PTC projects and refines Turnpike capital and operating needs and cost efficiency measures to ensure its toll facility is functioning in a state of good repair in the most cost-effective manner possible. This financial plan represents the PTC's sixth annual report of this effort. During the course of the year, PTC will track its performance relative to the financial plan. As needed, PTC will adjust its operations to meet the financial plan's objectives. In the event of unforeseen circumstances that hinder the Commission's ability to comply with its Act 44 commitments, PTC may need to adjust the assumptions of the financial plan and will provide the revised plan to the Secretary of the Budget. In addition, as required by Act 44 and reflecting good financial planning practices, the PTC will update its financial plan each year as part of its June 1 submission to the Secretary of the Budget, identifying how actual results varied from plan assumptions and identifying necessary revisions and updates based on the prior year outcomes.

IV. Strategies, Policies and Covenants to Maintain Financial Flexibility

Strategies, Policies and Covenants to Maintain Financial Flexibility

The Commission has established strategies to meet its Turnpike and Act 44 obligations in a financially prudent manner. PTC carries out these strategies in accordance with the provisions of Act 44, under the covenants it has entered into with bondholders in the Commission's trust indentures, and through the internal financial management policies it has adopted.

Covenants with Bondholders

PTC's Senior Revenue Bond and Subordinate Revenue Bond indentures feature covenants to bondholders that are based on the need to preserve the Commission's financial flexibility and to provide investors with sufficient security. Key covenants include the pledge of revenues, flow of funds, rate covenant, additional bonds test and maintenance of reserves.

Pledge of Revenues

PTC toll and other operating revenues are first used to pay Turnpike operating and maintenance expenses. This is the typical approach used in toll road financing where both the toll road operator and its investors want to ensure there are sufficient revenues to meet ongoing operating needs so that it can generate the necessary resources to cover debt service and other obligations. Debt service on the PTC's Senior Revenue Bonds is secured by toll and other operating revenues after payment of operations and maintenance expenses, i.e. net revenues. Subordinate Revenue Bond investors are paid after the Senior Revenue Bonds, while Subordinate Special Revenue Bonds are secured on a junior basis to the Subordinate Revenue Bonds. The Commission established this subordinate payment structure to ensure sufficient revenues are available first to meet the needs of the Turnpike's debt service, capital reinvestment and reserve needs before payments to PennDOT are made.

Flow of Funds

All revenues of the Commission are deposited daily into its Revenue Fund. On or before the last business day of the month, an amount equal to the following month's operating and maintenance expenses is transferred into the Operating Account. After meeting the Operating Account requirement, the Commission transfers an amount equal to that month's accrued interest and principal requirement into the Senior Revenue Bonds Debt Service Fund. Remaining amounts are paid into the Reserve Maintenance Fund equal to the amount required for the following month defined in the Commission's annual capital budget, into the Senior Revenue Bond Debt Service Reserve Fund to restore a deficiency, if any, within 18 months, with the remaining surplus deposited into the General Reserve Fund. Balances in the General Reserve Fund are available to pay PTC subordinate debt, optionally redeem bonds, fund capital improvements or be applied for any other authorized Commission purposes.

Amounts on deposit in the General Reserve Fund are first applied toward payments to meet administrative expenses. Each month an amount equal to 115% of one-sixth of the next interest payment and one-twelfth of the next principal payment is paid into the Debt Service Fund for the Subordinate Revenue Bonds. After meeting this requirement the Subordinate Indenture requires an amount equal to one-sixth of the next interest payment and one-twelfth of the next principal payment be paid into the Subordinate Special Revenue Bond Debt Service Fund. Funds are then deposited to make up any deficiencies in the debt service reserve funds for the Subordinate Bonds, the Special Revenue Bonds Funded Debt Service Sub Account, or to repay PennDOT for any draws on the Motor License Fund. The remainder is deposited into the Residual Fund which may be used for any authorized Commission purposes.

Rate Covenant

PTC has covenanted with bondholders to set tolls so that pledged revenues cover debt service by at least the following amounts:

- Net revenues cover the greater of 1.30x Senior Revenue Bond debt service or 1.00x the sum of Senior Revenue Bond maximum annual debt service, deposits into the Reserve Maintenance Fund and amounts necessary, if required, to restore a deficiency in the Debt Service Reserve Fund. In addition, net revenues must be sufficient to cover any short term indebtedness outstanding for 365 consecutive days.

- Commission payments out of the General Reserve Fund are required to be at least 1.15x annual debt service on Subordinate Revenue Bonds, 1.00x annual debt service on the Subordinate Special Revenue Bonds and amounts, if required, to restore a deficiency in the Subordinate Debt Service Reserve Fund.

While the rate covenant provides an important level of protection to bondholders, the PTC has typically maintained much higher coverage levels than the legal threshold--in excess of 2.0x on its Senior Revenue Bonds, 1.30x on combined Senior and Subordinate Revenue Bond debt service and 1.20x on debt service across all three liens. This commitment and established track record of maintaining strong debt service coverage is a key factor that drives the Commission's ratings. It also provides the PTC greater financial flexibility in the event it needs to deal with unexpected financial circumstances. While the Commission would be complying with its commitment to bondholders if it allowed its debt service coverage ratios to decline to the minimum rate covenant requirements, such coverage levels would likely result in a downgrade of the PTC's debt, increasing its borrowing costs and limiting its financial flexibility.

Additional Bonds Test

To manage leverage, the Commission has established the following debt service coverage tests for incurring additional indebtedness:

- Issuance of additional Senior Revenue Bonds requires that debt service coverage was at least 1.75x for the prior fiscal year or debt service coverage was at least 1.30x maximum annual debt service including proposed issuance, and that projected debt service coverage for the two fiscal years following the end of capitalized interest is at least 1.30x.

- Debt service coverage provided by Commission Payments for the prior fiscal year was at least 1.15x Subordinate Revenue Bond debt service and 1.00x Subordinate Special Revenue Bond debt service or projected debt service coverage for the next two fiscal years after the end of a capitalized interest period is at least equal to 1.10x on combined Subordinate Revenue Bond and Subordinate Special Revenue Bond debt service. In addition, Act 44 and the Funding Agreement include further limits on Subordinate Special Revenue Bonds where no more than $5 billion may be issued in total, with no more than $600 million issued annually.

Reserve Funds

PTC has the option to provide added protection to bondholders by offering a debt service reserve fund which provides liquidity in the event of unforeseen short term circumstances that result in lower than expected revenues or higher than expected expenses that could adversely impact the Commission's ability pay its debt service obligations. Variable rate Senior Revenue Bonds are not secured by a debt service reserve fund. Senior Revenue Bonds debt service reserve funds are funded at maximum annual debt service. The Subordinate Revenue Bonds debt service reserve fund requirement is based upon a standard test to satisfy Internal Revenue Service arbitrage requirements equal to the lesser of 10% of proceeds, maximum annual debt service or 125% of average annual debt service. Additionally, the Subordinate Special Revenue Bonds are secured by a Debt Service Sub-Account equal to one half maximum annual debt service. Given the strong coverage levels the Commission has achieved and plans to maintain, there is a low likelihood that such funds would be drawn upon.

Operations, Maintenance and Capital Improvements

The Commission commits to an inspection of the Turnpike every three years by an independent engineering consultant to determine whether it is maintained in a state of good repair and to make recommendations for revisions or additions to the Commission's capital improvement program. On or before May 31st of each year the Commission will adopt an annual operating budget. Prior to adopting the budget, the Commission will provide it to a consulting engineer to provide comments on the proposed budget. At the same time the Commission adopts its annual budget, it will also approve a capital budget that establishes its capital improvement program for the next ten years. Similar to the operating budget, the capital budget is provided to the consulting engineer for review and comment. It should be noted that as of the issuance of this report the Commission has not adopted its fiscal 2014 ten year capital plan. Various transportation funding legislative proposals currently in debate in the General Assembly may impact the Commission and its capital plan. As a result, PTC has delayed the adoption of its fiscal 2014 capital budget pending the outcome of the transportation funding legislative debate.

Financial Management Policies

PTC has established financial management policies that guide the Commission's prudent use of debt and derivatives to mitigate risk, and to ensure the maintenance of adequate fund balances and proper investment of available funds. The following summarizes the Commission's financial management policies, while the Appendix contains a copy of each policy.

Debt Policy

The purpose of the Commission's debt policy is (i) to establish sound, prudent and appropriate parameters; (ii) to provide guidance governing the issuance, management, continuing evaluation of and reporting on all debt obligations issued by the PTC; and (iii) to take the steps necessary to assure compliance and conformity with this policy. The Commission recognizes the importance and value of the continued creditworthiness and marketability of its bonds, and this policy is intended to ensure that any and all potential debt structures comply with all applicable laws and regulations, as well as sound financial principles.

Historically, the Commission has limited long-term borrowing to fund Turnpike capital improvements, projects, or equipment that cannot be financed from current financial resources. In an effort to maximize capital funding availability, the Commission has utilized a reasonable mix of borrowing and pay-as-you-go funding, and intends to do so in the future.

The Commission does not fund Turnpike current operations or normal maintenance from the proceeds of long-term borrowing. However, Act 44 mandated that the Commission makes large transfers to PennDOT for among other things operating subsidies to Pennsylvania's transit agencies. Over time, it is anticipated that excess revenues from the Turnpike could fund a majority of these transfers. But, for the foreseeable future, these payment levels will exceed the cash resources of the Commission and will need to be financed with Subordinate Revenue Bonds and Subordinate Special Revenue Bonds. However, the Commission's strategy of phased debt issuance over time mitigates the financial impact.

The Commission seeks to attain bond ratings so borrowing costs are minimized and access to credit is preserved. The Commission understands the importance of demonstrating to rating agencies, investors, investment bankers, creditors and users of the Turnpike that it is following a prescribed financial plan and adhering to sound financial policy. The Commission follows a practice of full disclosure by regularly communicating with bond rating agencies and the Municipal Securities Rulemaking Board's EMMA system to inform them of the Commission's current financial condition and future financial outlook.

Swap Policy

The Swap Policy establishes guidelines for the use and management of all interest rate management agreements, including interest rate swaps, swap options, caps, collars and floors (collectively "Swaps" or "Agreements") incurred in connection with the issuance of debt. The Commission revised its swap policy in fiscal 2013 to reflect certain requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 regarding policies and procedures governing the Commission's interaction with swap dealers and to update the polices based on current trends in the management of derivatives.

The Swap Policy authorizes the Commission to use Swaps to hedge interest rate movement, basis risk and other risks, to lock-in a fixed rate or, alternatively, to create synthetic variable rate debt. Swaps may also be used to produce interest rate savings, limit or hedge variable rate payments, alter the pattern of debt service payments, manage exposure to changing market conditions in advance of anticipated bond issues (through the use of anticipatory hedging instruments) or for asset/liability matching purposes.

Prior to the execution of any Swap transaction, the Chief Financial Officer, the Assistant Chief Financial Officer for Financial Management, the Commission's Swap Advisor and legal counsel are required to evaluate the proposed transaction based on an assessment of potential benefits and risks defined in the

Swap Policy. As part of its review of a proposed Swap agreement, the Commission will evaluate prevailing market practices and requirements, legal requirements and potential impacts on the PTC's management if its Swaps. Swaps are required to include financial terms and conditions that are fair and reasonable to be evidenced in a letter from a qualified independent Swap Advisor. The Commission will use terms and conditions defined in the International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement and may use the ISDA August 2012 Dodd-Frank Protocol or other such documentation deemed necessary to meet market requirements related to swap provisions of the Dodd-Frank Act. The Assistant Chief Financial Officer for Financial Management in consultation with the Swap Advisor and legal counsel will evaluate the risks of the Commission's outstanding Swaps annually and provide a report of the findings to the Senior Executives.

Liquidity Standard Policy

The purpose of this policy is to ensure that the PTC will maintain minimum annual year-end fund balances for the ongoing level of uncommitted reserves necessary for the Commission to secure and protect its long-term debt. Pursuant to the policy, the PTC will budget and maintain a cumulative fund balance, including cash balances in the Reserve Maintenance Fund and the General Reserve Fund, equal to the greater of either the maximum annual debt service on all bonds not secured by a Debt Service Reserve Fund or 10% of annual budgeted revenues.

Investment Policy and Guidelines

PTC's Investment Policy and Guidelines govern the Commission's investment of cash assets. Investment objectives are centered on the safety and preservation of invested funds, maintenance of adequate liquidity to meet Commission cash flow requirements, maximizing the total rate of return and providing preference to Pennsylvania investments when the return on investment is no less than a non-Pennsylvania investment. The policy defines eligible securities and requirements for diversification of investments to provide for safety and preservation of funds.

All investments are made with judgment and care, not for speculation, considering the probable safety of capital as well as the probable income to be derived. At the time of purchase, the maturity of each security in the portfolio may not exceed five years and portfolio managers shall adhere to a semi-active portfolio management strategy.

All investment ratings shall be based on the security ratings at the time of purchase. In the event of a rating downgrade, the portfolio manager is to discuss such downgrade with the Chief Financial Officer with a recommendation on whether to sell or hold. The portfolio's average credit quality should be rated Aa3/AA- or better by Moody's and Standard and Poor's, respectively. Portfolio performance is reported each quarter. The quarterly reports describe investment performance, conformity with the policy, status of the portfolio and transactions made over the reporting period.

V. Fiscal 2014 Financial Plan

Fiscal 2014 Financial Plan

PTC's fiscal 2014 financial plan defines the reasonably expected revenues the Commission will generate necessary to meet required Turnpike operating and maintenance expenses, debt service payments, capital expenses, Act 44 payment obligations and liquidity requirements. Exhibits 4 and 5 show the Commission's financial plan for the ensuing fiscal year.

Exhibit 4
Projected Fiscal 2014 Financial Plan
($000) Fiscal Year End 5/31

	2013	2014
Turnpike Operating Income		
Adjusted Gross Toll Revenues	811,003	854,819
Gross Non-Toll Revenues	21,061	16,283
Gross Operating Revenues	832,064	871,102
Operating Expense	324,500	337,467
Interest Income	14,184	5,419
Net Turnpike Revenues	521,748	539,053
Turnpike Senior Revenue Bonds Debt Service	138,676	191,401
Net Income Before Capital Expense and General Reserve	383,072	347,653
Turnpike Working Capital		
Cash Beginning Balance	197,983	158,551
Construction Fund Beginning Balance	125,775	135,095
Newly Sized Senior Bond Proceeds	390,003	355,585
Previously Unused Senior Bond Proceeds Used	125,875	135,095
Current Senior Bond Proceeds Used	254,808	355,585
Construction Fund Ending Balance	135,095	-
Net Earnings	383,072	347,653
Capital Expenditure	575,234	613,350
PAYGO	194,551	122,670
Federal Fund Reim.	12,200	20,700
Capital Expenditure Reconciliation	(1,671)	-
Liquidity Requirement	83,206	87,110
Liquidity Requirement Cashflow Set-aside	2,818	3,904
Tax-Exempt Subordinate Bonds Debt Service	152,242	187,359
Taxable Subordinate Bonds Debt Service	12,428	12,421
Subordinate Special Revenue Bonds Debt Service	27,722	34,676
Subordinate and Sub Special Rev DSRF Earnings	6,728	4,742
Net Funds Remaining Before Act 44 Payments	208,551	170,617
Debt Service Coverage Ratios		
Senior Revenue Bonds		
Pledged Revenues	521,748	539,053
Debt Service	138,676	191,401
Coverage	3.76 x	2.82 x
Subordinate Revenue Bonds		
Pledged Revenues	527,914	543,233
Debt Service	303,345	391,181
Coverage	1.74 x	1.39 x
Subordinate Special Revenue Bonds		
Pledged Revenues	528,475	543,795
Debt Service	331,067	425,856
Coverage	1.60 x	1.28 x

Note: Pledged revenues include net revenues and debt service reserve fund interest earnings attributable to each lien

Exhibit 5
Projected Fiscal 2014 Financial Plan
($000) Fiscal Year End 5/31

	2013	2014
Act 44 Payment Funds		
Turnpike Net Income Before Act 44 Payments	208,551	170,617
Tax-Exempt Subordinate Bond Proceeds	200,000	200,000
Taxable Subordinate Bond Proceeds	-	-
Subordinate Special Revenue Bond Proceeds	200,000	200,000
Act 44 Payments		
Roads & Bridges Payments	200,000	200,000
Roads & Bridges Total Sources	200,000	200,000
Tax-Exempt Subordinate Bond Proceeds	-	-
Turnpike Cash	-	-
Subordinate Special Revenue Bond Proceeds	200,000	200,000
Transit Operations Payments	250,000	250,000
Transit Operations Total Sources	250,000	250,000
Turnpike Cash	50,000	50,000
Tax-Exempt Subordinate Bond Proceeds	200,000	200,000
Taxable Subordinate Bond Proceeds	-	-
Total Act 44 Payments	450,000	450,000
Total Act 44 Sources	450,000	450,000
Remaining Turnpike Cash	158,551	120,617
General Reserve Fund/Liquidity Requirement	241,758	207,727

The fiscal 2014 financial plan was developed based on the following assumptions.

Estimated Toll Rates, Tolls and Other Revenues

Fiscal 2014 toll revenues reflect the full year impact of the toll increase implemented on January 2013 and a partial year impact of a planned adjustment yielding an average toll rate increase of 3% scheduled for January 2014. Toll revenues are projected to increase by 5.4% to $854.8 million in fiscal 2014, consistent with the Commission's March 2013 traffic and revenue forecast. Other PTC revenues, primarily consisting of concession income and transponder fees, are projected to decline by 22.7% to $16.3 million. As a result, total operating revenues are projected to grow by 4.7% in fiscal 2014 to $871.1 million. Interest income is projected to be $5.4 million. Reflecting CDM Smith's assumptions for a slower pace of economic growth, fiscal 2013 toll revenues are 1.5% lower than last year's plan.

Operating, Capital and Other Expenditures

PTC has budgeted operating and maintenance expenses of $337.5 million for fiscal 2014, 0.7% below levels assumed in last year's plan. In line with the Commission's expense growth goal, operating expenses are budgeted to increase by 4% compared to fiscal 2013. Capital expenditures are budgeted to be $613.3 million – 11.5% lower than last year's financial plan.

Senior Revenue Bond debt service payments on the Commission's bonds for fiscal 2014 are projected to be $191.4 million. Combined Subordinate Revenue Bond and Subordinate Special Revenue Bond debt service is estimated to equal $234.6 million. Compared to last year's financial plan total debt service costs are expected to be 3.0% lower.

It should be mentioned that budgeted debt service does not include payments on $771.1 million in separately secured Oil Company Franchise Tax Revenue Bonds and $423.6 million in separately secured Registration Fee Revenue Bonds issued to finance the costs of the Mon/Fayette and Southern Beltway projects. Principal and interest on these bonds are not paid by the PTC's toll revenues and are only obligations of the taxes and fees allocated by the Commonwealth to pay debt service on these bonds. Similarly, the capital needs for the Mon/Fayette and Southern Beltway, which are assumed to be funded with non-Turnpike sources, are not reflected in the financial plan.

Outside of the PTC's capital initiatives, Act 44 commitments represent the Commission's largest obligation for fiscal 2014. Pursuant to Act 44 and the Funding Agreement, PTC will provide a total of $450 million in funding, consisting of $200 million in contributions to the Motor License Fund for highway and bridge capital needs and $250 million to the Public Transportation Trust Fund for transit operating needs. The $450 million Act 44 payment obligation is 33% greater than the Commission's budgeted fiscal 2014 operating expenses of $337.5 million.

Planned Borrowings

To meet its fiscal 2014 capital expenditures, PTC expects to issue $365.6 million in Senior Revenue Bonds. Act 44 obligations are expected to be funded by $50 million in available cash from the General Reserve Fund and the issuance of $168.6 million in Subordinate Revenue Bonds and $161.2 million in Subordinate Special Revenue Bonds for the October 2013, January 2014 and April 2014 Act 44 payments. The July 2013 payment will be funded with a portion of the proceeds of the $71.7 million Subordinate Revenue Bonds Series A of 2013 and the $92.5 million Subordinate Special Revenue Bonds Series A of 2013. The Commission also expects to issue $280 million in floating rate notes to refinance outstanding variable rate debt with an expiring standby bond purchase agreement and hard maturities coming due in fiscal 2014. In addition, $80 million in Oil Franchise Tax Bonds are expected to be issued to refund currently callable debt during fiscal 2014. Depending upon market conditions, PTC may refund additional outstanding debt for savings.

As part of the structuring of these bonds, PFM assumed Senior Revenue, Subordinate Revenue and Subordinate Special Revenue Bonds reflect a mix of current interest bonds and capital appreciation bonds in order to maintain desired debt service coverage levels, conserve debt capacity and facilitate market acceptance for the Commission's securities. The bonds are assumed to have a 30 year term. Based on current market conditions, the following interest rates are assumed:

- Senior Revenue Bonds have an interest rate equal to the ten year average of the 'AAA' MMD Index plus 80 basis points for current interest bonds and 155 basis points for capital appreciation bonds.

- Subordinate Revenue Bonds have an interest rate equal to the ten year average of the 'AAA' MMD Index plus 100 basis points for current interest bonds and 175 basis points for capital appreciation bonds.

- Subordinate Special Revenue Bonds have an interest rate equal to the ten year average of the 'AAA' MMD Index plus 70 basis points for current interest bonds and 145 basis points for capital appreciation bonds.

Based on the above assumptions for revenues, operations and maintenance expense and debt service, fiscal 2014 debt service coverage of the Commission's Senior Revenue Bonds is expected to be 2.82x, 1.39x on the Subordinate Revenue Bonds and 1.28x on the Subordinate Special Revenue bonds.

General Reserve Fund Requirements and Balance

In compliance with PTC's Liquidity Standard Policy, the financial plan assumes that Commission retains a liquidity balance equal to at least 10% of annual budgeted revenues. Even after applying $50 million in available funds towards its Act 44 payments, PTC expects to exceed this requirement with an ending balance of $207.7 million, which includes an $87.1 million liquidity level set aside in the General Reserve Fund.

VI. Long-Range Financial Plan

Long-Range Financial Plan

In addition to the fiscal 2014 financial plan, PTC has prepared a multi-year plan to meet Act 44 and Funding Agreement requirements such that the financial plan shall demonstrate that the operation of the Commission in accordance therewith can reasonably be anticipated to result in the Commission having funds during the ensuing future fiscal years to make the payments due to the Department after all other obligations of the Commission have been met. This section defines the assumptions and results of the PTC's Act 44 long-range financial plan to identify how the Commission can meet annual Turnpike and Act 44 obligations during the course of the Funding Agreement, through fiscal 2057. Given the inherent uncertainties associated with long-range financial projections, the Commission recognizes the inevitability of needing to make substantial modifications to the financial plan over the course of the next five decades. Nevertheless, the Commission has developed a set of assumptions based on today's conditions that it believes are a reasonable basis for preparing a long-range financial plan, as required under Act 44.

PTC's multi-year financial plan reflects several key factors:

- The Commission's assumptions and expectations reflecting the long-term traffic and revenue performance of the Turnpike.
- The Commission's goals to contain operating and maintenance expense growth.
- The Turnpike's capital needs under its near to medium term ten-year capital plan and a sustained level of spending thereafter adjusted for inflation.
- Required base payments under Act 44 of $450 million annually.
- The mix of debt and pay-as-you-go financing to meet Turnpike and Act 44 needs and maintenance of required liquidity levels.

Toll Revenues

The long range financial plan reflects the Commission's commitment to operate and maintain its toll facilities, support a Turnpike capital investment program at levels consistent with the ten year plan and spending levels adjusted for inflation, and fully fund its Act 44 obligations. At the same time the financial plan assumes the Commission will maintain debt service coverage ratios of at least 2.0x on annual debt service for its Turnpike Senior Revenue Bonds, 1.30x on combined debt service for its Turnpike Senior Revenue and Subordinate Revenue Bonds and 1.20x coverage across all three liens including the Senior, Subordinate and Subordinate Special Revenue Bonds. In addition, a liquidity level at least equal to 10% of operating revenues is assumed to be maintained for the Turnpike.

These coverage and liquidity targets reflect the Commission's goal to maintain financial flexibility consistent with its credit ratings. To meet these operating, capital and Act 44 obligations and maintain these coverage and liquidity ratios, the financial plan assumes Turnpike traffic and toll rates will increase at levels sufficient to comply with these parameters. As part of the Act 44 financial planning process, the Commission will annually review underlying economic conditions and traffic in order to establish toll rates to meet its goals.

Operations and Maintenance Expenses

Projected operating expenses are based on PTC's goal to contain annual operations and maintenance cost growth to 4% annually. In addition to operating the Turnpike, these expenses include pension contributions as required by the State Employees Retirement System and funding OPEB obligations.

Capital Expenses

The financial plan assumes the completion of the Turnpike's planned $6.8 billion ten year enhanced capital plan by fiscal 2023. It is important to note that the Commission will need to continue to carefully balance the Turnpike's capital needs with its Act 44 commitments over the course of the financial plan period.

Although the PTC is undertaking a significant investment to rebuild and rehabilitate Turnpike capital assets over the next ten years, there will be on-going capital needs to maintain the facility in a state of good repair. *After the completion of the ten year capital plan, the financial plan assumes a sustained level of capital investment comparable to the ten-year program.* In fiscal 2024 Turnpike capital expenditures equal $662.3 million, a 4% increase over the prior year. Thereafter, capital expenses grow by 4% annually throughout the term of financial plan. This strategy is consistent with last year's financial plan.

Act 44 Payment Obligations

PTC will meet its Act 44 payment obligations of $450 million annually, consisting of $200 million for highways and bridges and $250 million for transit operations.

Financing Guidelines

The following guidelines were used to develop the financing strategy for the financial plan:

- Turnpike financial obligations are accounted for separately to clearly define the flow of Turnpike resources to Turnpike operating expenses, capital expenses, debt service and Act 44 payment obligations.

- Senior Revenue Bonds secured by the net revenues of the Turnpike finance Turnpike capital improvements. Senior Revenue Bonds are assumed to fund up to 80% of each year's Turnpike capital outlays. This level of debt financing is assumed in order to conserve surplus cash flow and reduce the need for taxable Subordinate Revenue Bond borrowing. It is important to note that the amount of debt to finance Turnpike capital needs is reduced in later years, as surplus cash flow increases can support a pay-as-you-go program to fund Act 44 obligations.

- The Senior Revenue Bonds reflect the following structural assumptions:
  - Base rates reflect the ten year average for 'AAA' MMD rates.
  - To account for the tax exempt Senior Revenue Bonds credit spread over 'AAA' MMD rates, an additional 80 basis points is assumed for current interest bonds and 155 basis

points for capital appreciation bonds. The Senior Revenue Bonds are assumed to be uninsured.
  - The Senior Revenue Bonds feature a debt service reserve fund equal to maximum annual debt service, but no greater than 10% of proceeds in order to comply with IRS tax exempt requirements.
  - Issuance costs include $11 per $1000 of par for underwriting and other issuance expenses.
  - A mix of current interest bonds and capital appreciation bonds are assumed for each issuance.
  - The debt structure assumes bonds are issued at par—that is, no discount or premium bonds are assumed. Annual debt service escalates relative to the projected growth in net revenues for bonds issued through 2034. Beginning in fiscal 2035, a level debt structure is assumed.
  - The bonds amortize over a 40 year term, consistent with the expected long useful life of the assets being financed.
  - A minimum debt service coverage ratio of at least 2.00x is assumed in order to maintain financial flexibility, provide resources for pay-as-you-go capital, meet liquidity requirements and retain mid-investment grade ratings to ensure broad market access.

- Contributions from the Turnpike General Reserve Fund can be used to meet both Act 44 Motor License Fund highway and bridge payment obligations and Public Transportation Trust Fund transit operation payment obligations.

- After meeting the Turnpike General Reserve Fund policy where the balance equals at least 10% of that fiscal year's revenues, all remaining revenues are used for Act 44 purposes, either directly (through pay-as-you-go contributions) or indirectly (through debt service payments on Subordinate Revenue Bonds and Subordinate Special Revenue Bonds).

- The Subordinate Revenue Bonds reflect the following structural features:
  - Base rates reflect the ten year average for 'AAA' MMD rates for tax exempt bonds and the ten year average for ten year Treasuries for taxable bonds.
  - To account for the tax exempt Subordinate Revenue Bonds' credit spread over 'AAA' MMD rates, an additional 100 basis points is assumed for current interest bonds and 175 basis points for capital appreciation bonds. The tax exempt Subordinate Revenue Bonds are assumed to be uninsured.
  - Taxable Subordinate Revenue Bonds reflect a credit spread of 225 basis points over Treasuries and are not insured.
  - The Subordinate Revenue Bonds feature a debt service reserve fund equal to the lesser of 10% of initial principal, 125% of average annual debt service or maximum annual debt service.
  - Issuance costs include $11 per $1000 of par for cost of underwriting and issuance.
  - A mix of current interest bonds and capital appreciation bonds are assumed for the tax exempt bonds. Taxable bonds reflect a term bond structure.

- The debt structure assumes bonds are issued at par (i.e., no discount or premium bonds are assumed). Annual debt service escalates somewhat relative to the projected growth in net revenues.
- Tax exempt Subordinate Revenue Bonds have a 40 year amortization, while taxable Subordinate Revenue Bonds have a 20-year term reflecting a strategy to pay off this higher cost debt in as short a period as possible.
- Debt service coverage provided by net revenues is targeted to be at least 1.30x for combined Senior Revenue Bond and Subordinate Revenue Bond debt service in order to maintain financial flexibility.

- The Subordinate Special Revenue Bonds incorporate the following structural features:
  - Base rates reflect the ten year average for 'AAA' MMD rates.
  - The credit spread over 'AAA' MMD rates is based on an additional 70 basis points for current interest bonds and 145 basis points for capital appreciation bonds. The Bonds are assumed to be uninsured.
  - The Bonds include a Debt Service Sub Account funded at one half maximum annual debt service.
  - Issuance costs include $11 per $1000 of par for cost of underwriting and issuance.
  - A mix of current interest bonds and capital appreciation bonds are assumed for the tax exempt bonds.
  - The debt structure assumes bonds are issued at par (i.e., no discount or premium bonds are assumed). Annual debt service escalates somewhat relative to the projected growth in net revenues.
  - Bonds are issued with a term equal to the lesser of 40 years or the remaining term of the Funding Agreement.
  - Debt service coverage provided by net revenues is targeted to be at least 1.20x for combined Senior Revenue Bond, Subordinate Revenue Bond and Subordinate Special Revenue Bond debt service.

Financial Plan Results

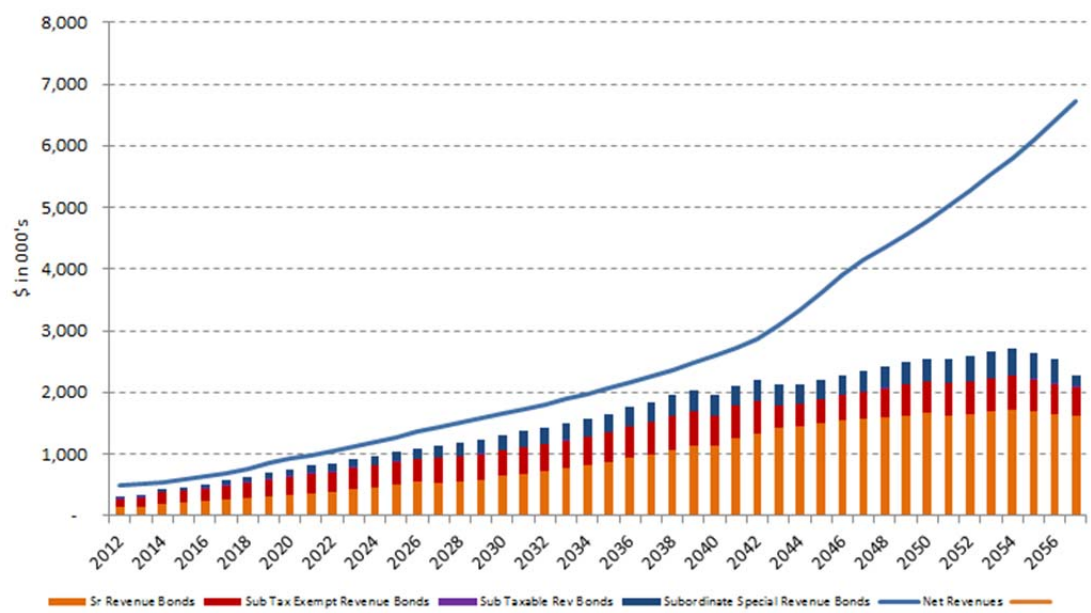
During the course of the financial plan period covering fiscal 2014-2057, the Commission is projected to generate sufficient resources to operate and maintain the Turnpike, provide for its capital investment needs, meet debt service requirements, fund required Act 44 obligations and maintain internal liquidity. The Appendix presents the financial plan annual cash flow.

Given Turnpike capital needs and Act 44 obligations, the Commission is projected to continue to regularly access the capital markets to finance its needs. Between fiscal 2014 and 2023, PTC is projected to issue $10.2 billion in debt. This year's financial plan includes $5.9 billion in Senior Revenue Bonds, $2.2 billion in Subordinate Revenue Bonds and $2.1 billion in Subordinate Special Revenue Bonds.

For the entire 2014-2057 year financial plan period, the issuance of debt secured by Turnpike toll revenues totals $35.7 billion, consisting of $24.3 billion in Senior Revenue Bonds for Turnpike capital needs and $7.3 billion in Subordinate Revenue Bonds and $4.1 billion in Subordinate Special Revenue Bonds to meet Act 44 obligations.

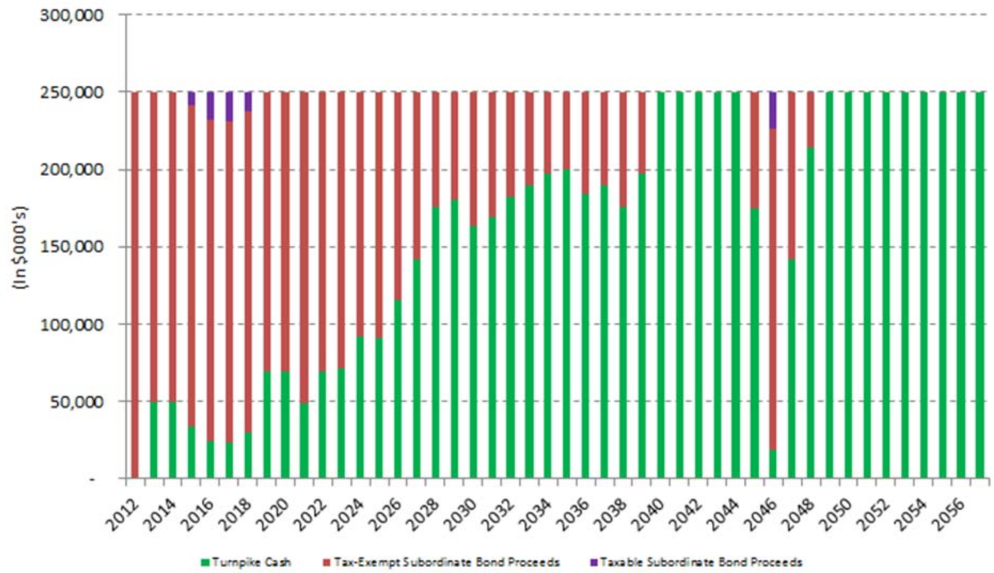
Exhibit 6 presents Turnpike net revenues relative to annual debt service obligations. Although the PTC is projected to be more highly leveraged, projected toll revenues are estimated to provide sufficient debt service coverage. Turnpike Senior Revenue Bond debt service coverage is at least 2.14x and is generally around 2.30x-2.50x, which should enable the Turnpike to retain its current mid-investment grade bond ratings. Reflecting significant leverage to finance Act 44 obligations, Subordinate Revenue Bond debt service coverage is lower, but at least 1.36x and generally ranges from 1.40x-1.50x. Subordinate Special Revenue Bond debt service coverage is no less than 1.20x.

Exhibit 6
Long Range Financial Plan
Turnpike Net Revenues and Debt Service
($000) Fiscal Years Ending 5/31



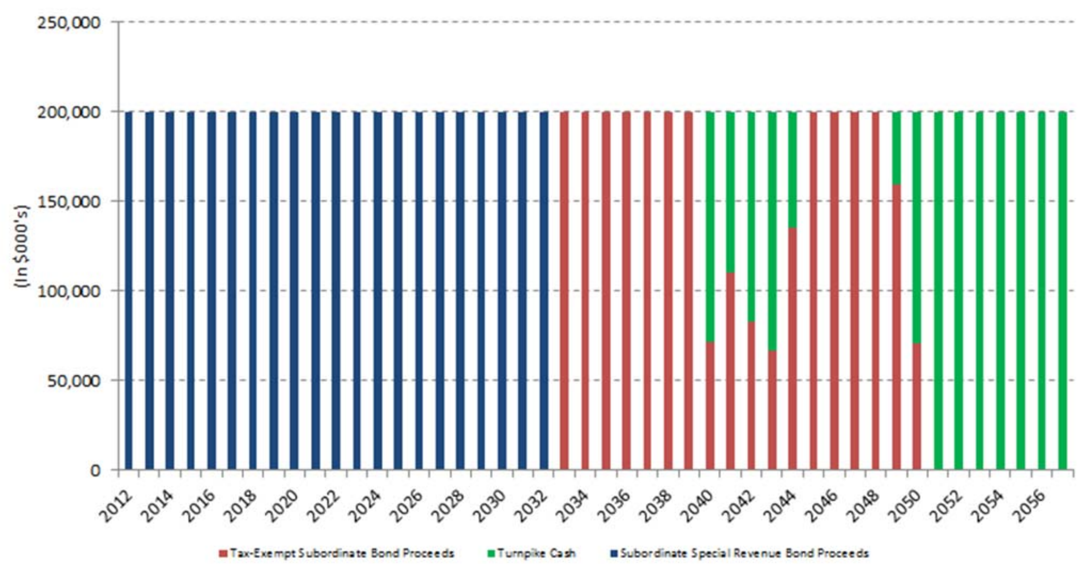
Although the financial plan is structured to maximize the use of Turnpike cash for its Act 44 transit obligations, the Commission would need to debt finance from 50%-80% of these obligations through fiscal 2026. As Turnpike revenues are projected to grow, debt needs are reduced to 20%-43% of Act 44 transit obligations through fiscal 2039 and are expected to be entirely cash-funded thereafter. (See Exhibit 7)

Exhibit 7
Long Range Financial Plan
Act 44 Transit Operating Support
($000) Fiscal Years Ending 5/31



Subordinate Special Revenue Bonds are required to finance 100% of the highway and bridge capital needs portion of the Commission's Act 44 payments through fiscal 2032 once the Commission fully utilizes its authorized borrowing capacity for this lien under Act 44. A mix of Turnpike cash and Subordinate Revenue Bonds are assumed from 2033 through 2050. Surplus cash is projected to fund highway and bridge capital needs thereafter. (See Exhibit 8).

Exhibit 8
Long Range Financial Plan
Act 44 Highway and Bridge Capital Support
($000) Fiscal Years Ending 5/31



To provide added protection, the financial plan assumes the Commission maintains at least 10% of annual gross revenues in the General Reserve Fund and Reserve Maintenance Fund. This internal liquidity is available to help the Commission meet its obligations in the event of a short term disruption, lower than expected revenues or higher than expected obligations.

Although the financial plan is based on reasonable financial assumptions, PTC recognizes that there are inherent uncertainties in projecting the Commission's resources and obligations over a forty-three year period. Downside risks to the financial plan include lower than expected traffic and toll revenues, higher interest and inflation rates and/or greater than projected cost increases. To accommodate these risks, the financial plan requires that PTC maintain strong debt service coverage and preserve internal liquidity. Nevertheless, it is also important to assess how the combination of downside risks may impact the financial plan and to identify remediation measures the Commission could implement to maintain fiscal stability. PTC will monitor its performance relative to the financial plan and take corrective action if costs are higher than projected and/or toll revenues are less than expected. While under such a scenario toll rates may need to be increased at higher rates, the Commission will explore strategies to contain cost growth or reprioritize capital initiatives to manage the level of rate adjustments and maintain fiscal stability.

VII. Fiscal 2014 Financial Planning Activities

Fiscal 2014 Financial Planning Activities

While the Commission continues to meet its Turnpike and Act 44 financial obligations over the course of fiscal 2014, it will pursue a number of activities to refine and strengthen its financial plan. These activities, described below, will enable the Commission to solidify its key assumptions and manage potential risk.

Traffic and Revenue Forecasts

PTC will continue to review and refine its Turnpike tolling strategies and revenue projections based on its traffic consultants' assessment of recent economic conditions and their expected long term impact on traffic demand. The traffic and revenue analyses will help the Commission further optimize its toll rate setting strategy to balance the need to generate the required revenues to meet Turnpike and Act 44 obligations, with the implementation of an equitable toll rate paid by customers that does not cause undue diversions to non-tolled highways. Refined estimates of traffic demand will also help guide the Commission's capital planning efforts to determine the timing and scope of capacity expansion needs to meet future traffic demand.

Operations and Maintenance Cost Strategies

The Commission's financial plan assumes that it will hold operations and maintenance expense growth to a 4% annual rate. During the course of the fiscal year, the Commission will evaluate updated pension contribution assumptions provided by the State Employees' Retirement System and continue to identify, evaluate and begin implementing measures to provide recurring savings and operating efficiencies that continue to control cost growth to the annual 4% rate over the long term.

Capital Planning

To meet the travel needs of its customers and generate the necessary revenues to meet its obligations, PTC is committed to maintaining and improving Turnpike infrastructure and providing sufficient capacity to meet future traffic demand. The Commission has a well-established ten-year capital planning effort for the Turnpike and will continue to refine and prioritize capital initiatives within the context of its plan, including strategies for implementing AET.

Financing Initiatives

The Commission continues to successfully navigate through an evolving capital markets environment in order to meet its commitments on a timely basis. Using this year's financial plan as a guide, the Commission will evaluate alternative pay-as-you-go and debt financing structures that meet the PTC and Commonwealth's needs while preserving fiscal stability. Specific initiatives include:

- Refine the mix of debt structures used by the Commission for financing capital improvement and Act 44 needs, including current interest bonds and capital appreciation bonds, convertible capital appreciation bonds and other options.

- Assess the costs and benefits of variable rate and interest rate derivative strategies relative to current market conditions.
- Monitor actual financial results with financial plan assumptions and adjust the financial plan if circumstances arise that could affect the ability of the Commission to meet its obligations under Act 44.
- Update financial management policies, as needed, to better reflect changing market conditions and Turnpike and Act 44 obligations.
- Pursue innovative financing strategies such the United States Department of Transportation's Transportation Infrastructure Finance and Innovation Act ("TIFIA") program and other programs that may allow the Commission to take advantage of flexible debt repayment terms and favorable borrowing rates.
- Continue to evaluate and implement strategies to maximize the amount of Act 44 payments eligible to be financed on a tax exempt basis.

VIII. Appendices

Appendices

A. Financial Plan Cash Flows

B. Financial Management Polices

A. Financial Plan Cash Flows

Pennsylvania Turnpike Commission
Act 44 Financial Plan
($000) Fiscal Year End 5/31

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Mainline Operating Income									
Adjusted Gross Toll Revenues	780,798	811,003	854,819	906,641	971,106	1,041,170	1,131,995	1,237,412	1,322,954
Gross Non-Toll Revenues	23,090	21,061	16,283	16,446	16,610	16,776	16,944	17,113	17,284
Gross Operating Revenues	803,888	832,064	871,102	923,087	987,716	1,057,946	1,148,939	1,254,525	1,340,238
Operating Expense	309,828	324,500	337,467	350,966	365,005	379,605	394,789	410,581	427,004
Interest Income	11,975	14,184	5,419	5,078	4,928	4,708	4,343	4,349	4,333
Net Turnpike Revenues Before Debt Service	506,035	521,748	539,053	577,200	627,638	683,049	758,492	848,294	917,567
Senior Turnpike Revenue Bond Debt Service	145,906	138,676	191,401	207,506	231,061	259,333	289,169	317,191	342,434
Net Income Before Capital Expense and General Reserve	360,129	383,072	347,653	369,694	396,577	423,716	469,323	531,103	575,133
Turnpike Working Capital									
Cash Beginning Balance	75,203	197,983	158,551	120,617	100,345	71,897	28,360	19,948	7,753
Construction Fund Beginning Balance	438,343	125,775	135,095	-	-	-	-	-	-
Newly Sized Senior Bond Proceeds	-	390,003	355,585	569,231	615,258	623,557	574,418	507,101	506,472
Previously Unused Senior Bond Proceeds Used	312,569	125,875	135,095	-	-	-	-	-	-
Current Senior Bond Proceeds Used	-	254,808	355,585	569,231	615,258	623,557	574,418	507,101	506,472
Construction Fund Ending Balance	125,775	135,095	-	-	-	-	-	-	-
Net Income	360,129	383,072	347,653	369,694	396,577	423,716	469,323	531,103	575,133
Capital Expenditure	425,164	575,234	613,350	711,538	769,073	779,446	718,023	633,876	633,090
PAYGO	112,595	194,551	122,670	142,308	153,815	155,889	143,605	126,775	126,618
Federal Fund Reim.	9,237	12,200	20,700	35,600	20,000	25,800	30,900	39,600	18,900
Capital Expenditure Reconciliation	6,953	(1,671)	-	-	-	-	-	-	-
Liquidity Requirement	80,389	83,206	87,110	92,309	98,772	105,795	114,894	125,453	134,024
Liquidity Requirement Cashflow Set-aside	4,525	2,818	3,904	5,199	6,463	7,023	9,099	10,559	8,571
Subordinate DSRF Interest Earnings	3,796	6,166	4,180	4,180	4,180	4,180	4,180	4,180	4,180
Subordinate Special Revenue Bonds DSRF Interest Earnings	562	562	562	562	562	562	562	562	562
General Reserve Fund Before Subordinate Debt	338,759	400,943	405,072	383,147	361,387	363,243	380,622	458,059	471,339
Subordinate and Sub. Special Revenue Bonds Debt Service	140,776	192,392	234,456	249,354	265,524	311,680	330,750	380,526	402,302
Tax-Exempt Subordinate Bonds Debt Service	118,273	152,242	187,359	194,701	201,901	230,213	239,361	271,811	284,046
Taxable Subordinate Bonds Debt Service	12,440	12,428	12,421	12,773	13,898	15,487	16,915	23,922	24,050
Subordinate Special Revenue Bonds Debt Service	10,063	27,722	34,676	41,879	49,725	65,980	74,474	84,793	94,206
Net Funds Remaining Before Act 44 Payments	197,983	208,551	170,617	133,793	95,863	51,564	49,871	77,533	69,037

Pennsylvania Turnpike Commission
Act 44 Financial Plan
($000) Fiscal Year End 5/31

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Act 44 Payment Sources									
Turnpike Cash	-	50,000	50,000	33,448	23,966	23,204	29,923	69,780	69,037
Tax-Exempt Subordinate Bond Proceeds	250,000	200,000	200,000	208,000	208,000	208,000	208,000	180,220	180,963
Taxable Subordinate Bond Proceeds	-	-	-	8,552	18,034	18,796	12,077	-	-
Subordinate Special Revenue Bond Proceeds	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Roads & Bridges Payments	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Roads & Bridges Total Sources	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-
Turnpike Cash	-	-	-	-	-	-	-	-	-
Subordinate Special Revenue Bond Proceeds	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Transit Capital Payments	-	-	-	-	-	-	-	-	-
Transit Capital Total Sources	-	-	-	-	-	-	-	-	-
Turnpike Cash	-	-	-	-	-	-	-	-	-
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-
Transit Operations Payments	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Transit Operations Total Sources	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Turnpike Cash	-	50,000	50,000	33,448	23,966	23,204	29,923	69,780	69,037
Tax-Exempt Subordinate Bond Proceeds	250,000	200,000	200,000	208,000	208,000	208,000	208,000	180,220	180,963
Taxable Subordinate Bond Proceeds	-	-	-	8,552	18,034	18,796	12,077	-	-
Total Act 44 Payments	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000
Total Act 44 Sources	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000
Remaining Turnpike Cash	197,983	158,551	120,617	100,345	71,897	28,360	19,948	7,753	-
Turnpike General Reserve	278,372	241,758	207,727	192,653	170,669	134,155	134,842	133,206	134,024
Coverage Calculations									
Mainline Debt Service Coverage									
Senior Lien									
Pledged Revenues	506,035	521,748	539,053	577,200	627,638	683,049	758,492	848,294	917,567
Debt Service	(145,906)	(138,676)	(191,401)	(207,506)	(231,061)	(259,333)	(289,169)	(317,191)	(342,434)
Coverage	3.47 x	3.76 x	2.82 x	2.78 x	2.72 x	2.63 x	2.62 x	2.67 x	2.68 x
Subordinate Lien									
Pledged Revenues	509,831	527,914	543,233	581,380	631,819	687,229	762,672	852,474	921,747
Debt Service	(276,619)	(303,345)	(391,181)	(414,980)	(446,860)	(505,032)	(545,446)	(612,924)	(650,530)
Coverage	1.84 x	1.74 x	1.39 x	1.40 x	1.41 x	1.36 x	1.40 x	1.39 x	1.42 x
Subordinate Special Revenue Lien									
Pledged Revenues	510,393	528,475	543,795	581,942	632,380	687,791	763,234	853,036	922,309
Debt Service	(286,682)	(331,067)	(425,856)	(456,859)	(496,585)	(571,012)	(619,919)	(697,717)	(744,736)
Coverage	1.78 x	1.60 x	1.28 x	1.27 x	1.27 x	1.20 x	1.23 x	1.22 x	1.24 x

Pennsylvania Turnpike Commission
Act 44 Financial Plan
($000) Fiscal Year End 5/31

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Mainline Operating Income										
Adjusted Gross Toll Revenues	1,409,242	1,492,970	1,581,641	1,675,520	1,774,940	1,876,603	1,974,808	2,068,477	2,160,539	2,256,655
Gross Non-Toll Revenues	17,457	17,632	17,808	17,986	18,166	18,347	18,531	18,716	18,903	19,092
Gross Operating Revenues	1,426,699	1,510,602	1,599,449	1,693,505	1,793,106	1,894,951	1,993,339	2,087,193	2,179,443	2,275,748
Operating Expense	444,084	461,847	480,321	499,534	519,515	540,296	561,908	584,384	607,760	632,070
Interest Income	4,341	4,428	4,512	4,601	4,690	4,789	4,211	4,310	4,403	4,496
Net Turnpike Revenues Before Debt Service	986,957	1,053,182	1,123,639	1,198,572	1,278,280	1,359,443	1,435,642	1,507,118	1,576,087	1,648,174
Senior Turnpike Revenue Bond Debt Service	365,969	390,833	430,517	458,806	513,027	542,109	535,697	546,292	582,862	646,555
Net Income Before Capital Expense and General Reserve	620,988	662,349	693,122	739,766	765,253	817,334	899,945	960,826	993,224	1,001,619
Turnpike Working Capital										
Cash Beginning Balance	-	-	-	-	-	-	-	-	-	-
Construction Fund Beginning Balance	-	-	-	-	-	-	-	-	-	-
Newly Sized Senior Bond Proceeds	502,369	505,974	509,471	529,850	551,044	573,085	596,009	619,849	644,643	670,429
Previously Unused Senior Bond Proceeds Used	-	-	-	-	-	-	-	-	-	-
Current Senior Bond Proceeds Used	502,369	505,974	509,471	529,850	551,044	573,085	596,009	619,849	644,643	670,429
Construction Fund Ending Balance	-	-	-	-	-	-	-	-	-	-
Net Income	620,988	662,349	693,122	739,766	765,253	817,334	899,945	960,826	993,224	1,001,619
Capital Expenditure	627,962	632,467	636,838	662,312	688,805	716,357	745,011	774,811	805,804	838,036
PAYGO	125,592	126,493	127,368	132,462	137,761	143,271	149,002	154,962	161,161	167,607
Federal Fund Reim.	-	-	-	-	-	-	-	-	-	-
Capital Expenditure Reconciliation	-	-	-	-	-	-	-	-	-	-
Liquidity Requirement	142,670	151,060	159,945	169,351	179,311	189,495	199,334	208,719	217,944	227,575
Liquidity Requirement Cashflow Set-aside	8,646	8,390	8,885	9,406	9,960	10,184	9,839	9,385	9,225	9,631
Subordinate DSRF Interest Earnings	4,180	4,180	4,180	4,180	4,180	4,180	4,180	4,175	4,171	4,118
Subordinate Special Revenue Bonds DSRF Interest Earnings	562	562	562	562	562	562	562	562	562	562
General Reserve Fund Before Subordinate Debt	491,491	532,207	561,612	602,640	622,274	668,620	745,846	801,216	827,572	829,061
Subordinate and Sub. Special Revenue Bonds Debt Service	442,418	462,497	490,735	510,596	531,590	553,178	604,294	625,584	647,020	665,518
Tax-Exempt Subordinate Bonds Debt Service	309,401	318,983	334,441	349,561	359,075	368,415	401,528	409,174	416,249	419,608
Taxable Subordinate Bonds Debt Service	24,211	24,373	23,617	17,514	17,710	17,896	6,643	6,842	7,046	7,258
Subordinate Special Revenue Bonds Debt Service	108,805	119,141	132,677	143,520	154,806	166,867	196,123	209,569	223,725	238,653
Net Funds Remaining Before Act 44 Payments	49,074	69,711	70,877	92,044	90,684	115,443	141,552	175,632	180,552	163,542

Pennsylvania Turnpike Commission
Act 44 Financial Plan
($000) Fiscal Year End 5/31

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Act 44 Payment Sources										
Turnpike Cash	49,074	69,711	70,877	92,044	90,684	115,443	141,552	175,632	180,552	163,542
Tax-Exempt Subordinate Bond Proceeds	200,926	180,289	179,123	157,956	159,316	134,557	108,448	74,368	69,448	86,458
Taxable Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Subordinate Special Revenue Bond Proceeds	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Roads & Bridges Payments	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Roads & Bridges Total Sources	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Turnpike Cash	-	-	-	-	-	-	-	-	-	-
Subordinate Special Revenue Bond Proceeds	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Transit Capital Payments	-	-	-	-	-	-	-	-	-	-
Transit Capital Total Sources	-	-	-	-	-	-	-	-	-	-
Turnpike Cash	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Transit Operations Payments	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Transit Operations Total Sources	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Turnpike Cash	49,074	69,711	70,877	92,044	90,684	115,443	141,552	175,632	180,552	163,542
Tax-Exempt Subordinate Bond Proceeds	200,926	180,289	179,123	157,956	159,316	134,557	108,448	74,368	69,448	86,458
Taxable Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Total Act 44 Payments	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000
Total Act 44 Sources	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000
Remaining Turnpike Cash	-	-	-	-	-	-	-	-	-	-
Turnpike General Reserve	142,670	151,060	159,945	169,351	179,311	189,495	199,334	208,719	217,944	227,575
Coverage Calculations										
Mainline Debt Service Coverage										
Senior Lien										
Pledged Revenues	986,957	1,053,182	1,123,639	1,198,572	1,278,280	1,359,443	1,435,642	1,507,118	1,576,087	1,648,174
Debt Service	(365,969)	(390,833)	(430,517)	(458,806)	(513,027)	(542,109)	(535,697)	(546,292)	(582,862)	(646,555)
Coverage	2.70 x	2.69 x	2.61 x	2.61 x	2.49 x	2.51 x	2.68 x	2.76 x	2.70 x	2.55 x
Subordinate Lien										
Pledged Revenues	991,137	1,057,362	1,127,819	1,202,752	1,282,460	1,363,623	1,439,822	1,511,294	1,580,258	1,652,291
Debt Service	(699,581)	(734,190)	(788,575)	(825,882)	(889,811)	(928,420)	(943,868)	(962,307)	(1,006,157)	(1,073,420)
Coverage	1.42 x	1.44 x	1.43 x	1.46 x	1.44 x	1.47 x	1.53 x	1.57 x	1.57 x	1.54 x
Subordinate Special Revenue Lien										
Pledged Revenues	991,699	1,057,924	1,128,381	1,203,314	1,283,022	1,364,185	1,440,384	1,511,856	1,580,820	1,652,853
Debt Service	(808,386)	(853,330)	(921,252)	(969,402)	(1,044,617)	(1,095,287)	(1,139,991)	(1,171,876)	(1,229,882)	(1,312,073)
Coverage	1.23 x	1.24 x	1.22 x	1.24 x	1.23 x	1.25 x	1.26 x	1.29 x	1.29 x	1.26 x

Pennsylvania Turnpike Commission
Act 44 Financial Plan
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	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Mainline Operating Income										
Adjusted Gross Toll Revenues	2,357,525	2,463,535	2,574,257	2,689,941	2,810,772	2,936,822	3,068,369	3,205,863	3,349,510	3,500,255
Gross Non-Toll Revenues	19,283	19,476	19,671	19,868	20,066	20,267	20,470	20,674	20,881	21,090
Gross Operating Revenues	2,376,809	2,483,012	2,593,928	2,709,809	2,830,838	2,957,089	3,088,839	3,226,537	3,370,391	3,521,345
Operating Expense	657,353	683,647	710,993	739,433	769,010	799,770	831,761	865,031	899,633	935,618
Interest Income	4,592	4,693	4,799	4,910	5,026	5,088	5,085	4,940	5,077	5,081
Net Turnpike Revenues Before Debt Service	1,724,048	1,804,058	1,887,734	1,975,286	2,066,854	2,162,407	2,262,163	2,366,446	2,475,835	2,590,809
Senior Turnpike Revenue Bond Debt Service	686,144	720,626	764,781	811,618	866,808	936,637	992,073	1,070,097	1,142,282	1,146,384
Net Income Before Capital Expense and General Reserve	1,037,904	1,083,432	1,122,953	1,163,669	1,200,047	1,225,770	1,270,090	1,296,349	1,333,554	1,444,425
Turnpike Working Capital										
Cash Beginning Balance	-	-	-	-	-	-	-	-	-	-
Construction Fund Beginning Balance	-	-	-	-	-	-	-	-	-	-
Newly Sized Senior Bond Proceeds	697,246	725,136	754,141	784,307	815,679	848,306	882,239	917,528	954,229	992,398
Previously Unused Senior Bond Proceeds Used	-	-	-	-	-	-	-	-	-	-
Current Senior Bond Proceeds Used	697,246	725,136	754,141	784,307	815,679	848,306	882,239	917,528	954,229	992,398
Construction Fund Ending Balance	-	-	-	-	-	-	-	-	-	-
Net Income	1,037,904	1,083,432	1,122,953	1,163,669	1,200,047	1,225,770	1,270,090	1,296,349	1,333,554	1,444,425
Capital Expenditure	871,557	906,420	942,677	980,384	1,019,599	1,060,383	1,102,798	1,146,910	1,192,787	1,240,498
PAYGO	174,311	181,284	188,535	196,077	203,920	212,077	220,560	229,382	238,557	248,100
Federal Fund Reim.	-	-	-	-	-	-	-	-	-	-
Capital Expenditure Reconciliation	-	-	-	-	-	-	-	-	-	-
Liquidity Requirement	237,681	248,301	259,393	270,981	283,084	295,709	308,884	322,654	337,039	352,135
Liquidity Requirement Cashflow Set-aside	10,106	10,620	11,092	11,588	12,103	12,625	13,175	13,770	14,385	15,095
Subordinate DSRF Interest Earnings	4,118	4,118	4,118	4,118	4,118	4,118	4,106	4,093	3,657	2,981
Subordinate Special Revenue Bonds DSRF Interest Earnings	562	562	562	562	562	562	562	562	562	372
General Reserve Fund Before Subordinate Debt	858,166	896,207	928,006	960,684	988,704	1,005,748	1,041,023	1,057,851	1,084,830	1,184,582
Subordinate and Sub. Special Revenue Bonds Debt Service	689,415	714,076	738,620	762,996	788,858	821,528	851,346	882,560	887,763	806,264
Tax-Exempt Subordinate Bonds Debt Service	427,535	435,395	447,099	462,601	480,214	505,788	528,775	552,089	547,494	481,429
Taxable Subordinate Bonds Debt Service	7,475	7,697	7,924	8,157	7,453	5,286	2,531	489	-	-
Subordinate Special Revenue Bonds Debt Service	254,406	270,984	283,596	292,238	301,191	310,454	320,040	329,982	340,269	324,835
Net Funds Remaining Before Act 44 Payments	168,750	182,131	189,387	197,688	199,846	184,220	189,677	175,291	197,067	378,318

Pennsylvania Turnpike Commission
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	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Act 44 Payment Sources										
Turnpike Cash	168,750	182,131	189,387	197,688	199,846	184,220	189,677	175,291	197,067	378,318
Tax-Exempt Subordinate Bond Proceeds	81,250	67,869	260,613	252,312	250,154	265,780	260,323	274,709	252,933	71,682
Taxable Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Subordinate Special Revenue Bond Proceeds	200,000	200,000	-	-	-	-	-	-	-	-
Roads & Bridges Payments	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Roads & Bridges Total Sources	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Tax-Exempt Subordinate Bond Proceeds	-	-	200,000	200,000	200,000	200,000	200,000	200,000	200,000	71,682
Turnpike Cash	-	-	-	-	-	-	-	-	-	128,318
Subordinate Special Revenue Bond Proceeds	200,000	200,000	-	-	-	-	-	-	-	-
Transit Capital Payments	-	-	-	-	-	-	-	-	-	-
Transit Capital Total Sources	-	-	-	-	-	-	-	-	-	-
Turnpike Cash	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Transit Operations Payments	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Transit Operations Total Sources	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Turnpike Cash	168,750	182,131	189,387	197,688	199,846	184,220	189,677	175,291	197,067	250,000
Tax-Exempt Subordinate Bond Proceeds	81,250	67,869	60,613	52,312	50,154	65,780	60,323	74,709	52,933	-
Taxable Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Total Act 44 Payments	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000
Total Act 44 Sources	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000
Remaining Turnpike Cash	-	-	-	-	-	-	-	-	-	-
Turnpike General Reserve	237,681	248,301	259,393	270,981	283,084	295,709	308,884	322,654	337,039	352,135
Coverage Calculations										
Mainline Debt Service Coverage										
Senior Lien										
Pledged Revenues	1,724,048	1,804,058	1,887,734	1,975,286	2,066,854	2,162,407	2,262,163	2,366,446	2,475,835	2,590,809
Debt Service	(686,144)	(720,626)	(764,781)	(811,618)	(866,808)	(936,637)	(992,073)	(1,070,097)	(1,142,282)	(1,146,384)
Coverage	2.51 x	2.50 x	2.47 x	2.43 x	2.38 x	2.31 x	2.28 x	2.21 x	2.17 x	2.26 x
Subordinate Lien										
Pledged Revenues	1,728,166	1,808,175	1,891,852	1,979,404	2,070,972	2,166,525	2,266,269	2,370,538	2,479,493	2,593,789
Debt Service	(1,121,153)	(1,163,717)	(1,219,804)	(1,282,375)	(1,354,474)	(1,447,711)	(1,523,379)	(1,622,675)	(1,689,776)	(1,627,813)
Coverage	1.54 x	1.55 x	1.55 x	1.54 x	1.53 x	1.50 x	1.49 x	1.46 x	1.47 x	1.59 x
Subordinate Special Revenue Lien										
Pledged Revenues	1,728,728	1,808,737	1,892,414	1,979,966	2,071,534	2,167,087	2,266,831	2,371,100	2,480,055	2,594,161
Debt Service	(1,375,560)	(1,434,702)	(1,503,400)	(1,574,613)	(1,655,666)	(1,758,165)	(1,843,420)	(1,952,657)	(2,030,045)	(1,952,648)
Coverage	1.26 x	1.26 x	1.26 x	1.26 x	1.25 x	1.23 x	1.23 x	1.21 x	1.22 x	1.33 x

Pennsylvania Turnpike Commission
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	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050
Mainline Operating Income										
Adjusted Gross Toll Revenues	3,673,977	3,844,209	4,116,240	4,407,664	4,719,892	5,054,453	5,359,467	5,609,012	5,870,585	6,144,827
Gross Non-Toll Revenues	21,301	21,514	21,729	21,946	22,166	22,387	22,611	22,837	23,066	23,296
Gross Operating Revenues	3,695,278	3,865,723	4,137,969	4,429,610	4,742,058	5,076,841	5,382,078	5,631,850	5,893,651	6,168,123
Operating Expense	973,043	1,011,964	1,052,443	1,094,541	1,138,322	1,183,855	1,231,209	1,280,458	1,331,676	1,384,943
Interest Income	5,232	5,406	5,577	5,592	5,884	6,196	6,531	6,837	7,086	7,348
Net Turnpike Revenues Before Debt Service	2,727,468	2,859,164	3,091,103	3,340,662	3,609,619	3,899,182	4,157,400	4,358,228	4,569,061	4,790,528
Senior Turnpike Revenue Bond Debt Service	1,244,717	1,334,776	1,420,943	1,443,976	1,501,526	1,540,807	1,569,351	1,598,481	1,629,236	1,661,198
Net Income Before Capital Expense and General Reserve	1,482,751	1,524,388	1,670,159	1,896,686	2,108,093	2,358,375	2,588,049	2,759,747	2,939,825	3,129,330
Turnpike Working Capital										
Cash Beginning Balance	-	-	-	-	-	-	-	-	-	-
Construction Fund Beginning Balance	-	-	-	-	-	-	-	-	-	-
Newly Sized Senior Bond Proceeds	1,032,094	1,073,378	837,235	580,483	301,851	-	-	-	-	-
Previously Unused Senior Bond Proceeds Used	-	-	-	-	-	-	-	-	-	-
Current Senior Bond Proceeds Used	1,032,094	1,073,378	837,235	580,483	301,851	-	-	-	-	-
Construction Fund Ending Balance	-	-	-	-	-	-	-	-	-	-
Net Income	1,482,751	1,524,388	1,670,159	1,896,686	2,108,093	2,358,375	2,588,049	2,759,747	2,939,825	3,129,330
Capital Expenditure	1,290,118	1,341,723	1,395,392	1,451,207	1,509,256	1,569,626	1,632,411	1,697,707	1,765,615	1,836,240
PAYGO	258,024	268,345	558,157	870,724	1,207,404	1,569,626	1,632,411	1,697,707	1,765,615	1,836,240
Federal Fund Reim.	-	-	-	-	-	-	-	-	-	-
Capital Expenditure Reconciliation	-	-	-	-	-	-	-	-	-	-
Liquidity Requirement	369,528	386,572	413,797	442,961	474,206	507,684	538,208	563,185	589,365	616,812
Liquidity Requirement Cashflow Set-aside	17,393	17,044	27,225	29,164	31,245	33,478	30,524	24,977	26,180	27,447
Subordinate DSRF Interest Earnings	2,981	2,793	270	101	-	-	-	-	-	-
Subordinate Special Revenue Bonds DSRF Interest Earnings	372	301	175	56	-	-	-	-	-	-
General Reserve Fund Before Subordinate Debt	1,210,687	1,242,094	1,085,223	996,954	869,444	755,271	925,114	1,037,063	1,148,030	1,265,643
Subordinate and Sub. Special Revenue Bonds Debt Service	871,250	875,324	702,126	682,224	694,448	737,055	783,121	822,670	857,156	886,486
Tax-Exempt Subordinate Bonds Debt Service	535,432	537,830	377,910	371,024	380,447	410,086	442,201	469,131	491,631	509,076
Taxable Subordinate Bonds Debt Service	-	-	-	-	-	975	2,580	2,579	2,577	2,576
Subordinate Special Revenue Bonds Debt Service	335,817	337,494	324,216	311,200	314,001	325,993	338,341	350,961	362,948	374,835
Net Funds Remaining Before Act 44 Payments	339,437	366,770	383,098	314,730	174,996	18,216	141,993	214,393	290,873	379,156

Pennsylvania Turnpike Commission
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	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050
Act 44 Payment Sources										
Turnpike Cash	339,437	366,770	383,098	314,730	174,996	18,216	141,993	214,393	290,873	379,156
Tax-Exempt Subordinate Bond Proceeds	110,563	83,230	66,902	135,270	275,004	408,000	308,007	235,607	159,127	70,844
Taxable Subordinate Bond Proceeds	-	-	-	-	-	23,784	-	-	-	-
Subordinate Special Revenue Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Roads & Bridges Payments	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Roads & Bridges Total Sources	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Tax-Exempt Subordinate Bond Proceeds	110,563	83,230	66,902	135,270	200,000	200,000	200,000	200,000	159,127	70,844
Turnpike Cash	89,437	116,770	133,098	64,730	-	-	-	-	40,873	129,156
Subordinate Special Revenue Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Transit Capital Payments	-	-	-	-	-	-	-	-	-	-
Transit Capital Total Sources	-	-	-	-	-	-	-	-	-	-
Turnpike Cash	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Transit Operations Payments	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Transit Operations Total Sources	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Turnpike Cash	250,000	250,000	250,000	250,000	174,996	18,216	141,993	214,393	250,000	250,000
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	75,004	208,000	108,007	35,607	-	-
Taxable Subordinate Bond Proceeds	-	-	-	-	-	23,784	-	-	-	-
Total Act 44 Payments	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000
Total Act 44 Sources	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000
Remaining Turnpike Cash	-	-	-	-	-	-	-	-	-	-
Turnpike General Reserve	369,528	386,572	413,797	442,961	474,206	507,684	538,208	563,185	589,365	616,812
Coverage Calculations										
Mainline Debt Service Coverage										
Senior Lien										
Pledged Revenues	2,727,468	2,859,164	3,091,103	3,340,662	3,609,619	3,899,182	4,157,400	4,358,228	4,569,061	4,790,528
Debt Service	(1,244,717)	(1,334,776)	(1,420,943)	(1,443,976)	(1,501,526)	(1,540,807)	(1,569,351)	(1,598,481)	(1,629,236)	(1,661,198)
Coverage	2.19 x	2.14 x	2.18 x	2.31 x	2.40 x	2.53 x	2.65 x	2.73 x	2.80 x	2.88 x
Subordinate Lien										
Pledged Revenues	2,730,448	2,861,958	3,091,373	3,340,763	3,609,619	3,899,182	4,157,400	4,358,228	4,569,061	4,790,528
Debt Service	(1,780,149)	(1,872,606)	(1,798,853)	(1,815,000)	(1,881,973)	(1,951,869)	(2,014,131)	(2,070,191)	(2,123,444)	(2,172,850)
Coverage	1.53 x	1.53 x	1.72 x	1.84 x	1.92 x	2.00 x	2.06 x	2.11 x	2.15 x	2.20 x
Subordinate Special Revenue Lien										
Pledged Revenues	2,730,820	2,862,259	3,091,548	3,340,819	3,609,619	3,899,182	4,157,400	4,358,228	4,569,061	4,790,528
Debt Service	(2,115,966)	(2,210,100)	(2,123,069)	(2,126,201)	(2,195,974)	(2,277,862)	(2,352,472)	(2,421,151)	(2,486,392)	(2,547,684)
Coverage	1.29 x	1.30 x	1.46 x	1.57 x	1.64 x	1.71 x	1.77 x	1.80 x	1.84 x	1.88 x

Pennsylvania Turnpike Commission
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	2051	2052	2053	2054	2055	2056	2057
Mainline Operating Income							
Adjusted Gross Toll Revenues	6,432,416	6,734,049	7,050,333	7,381,870	7,729,428	8,093,817	8,475,886
Gross Non-Toll Revenues	23,529	23,765	24,002	24,242	24,485	24,730	24,977
Gross Operating Revenues	6,455,945	6,757,814	7,074,336	7,406,112	7,753,913	8,118,546	8,500,863
Operating Expense	1,440,341	1,497,955	1,557,873	1,620,188	1,684,995	1,752,395	1,822,491
Interest Income	6,168	7,457	9,861	13,462	18,351	26,025	36,709
Net Turnpike Revenues Before Debt Service	5,021,772	5,267,316	5,526,323	5,799,386	6,087,268	6,392,177	6,715,082
Senior Turnpike Revenue Bond Debt Service	1,621,361	1,654,610	1,688,646	1,723,673	1,684,405	1,637,847	1,607,895
Net Income Before Capital Expense and General Reserve	3,400,411	3,612,706	3,837,677	4,075,713	4,402,864	4,754,330	5,107,187
Turnpike Working Capital							
Cash Beginning Balance	-	100,094	310,277	638,745	1,094,474	1,827,157	2,859,065
Construction Fund Beginning Balance	-	-	-	-	-	-	-
Newly Sized Senior Bond Proceeds	-	-	-	-	-	-	-
Previously Unused Senior Bond Proceeds Used	-	-	-	-	-	-	-
Current Senior Bond Proceeds Used	-	-	-	-	-	-	-
Construction Fund Ending Balance	-	-	-	-	-	-	-
Net Income	3,400,411	3,612,706	3,837,677	4,075,713	4,402,864	4,754,330	5,107,187
Capital Expenditure	1,909,690	1,986,077	2,065,520	2,148,141	2,234,067	2,323,430	2,416,367
PAYGO	1,909,690	1,986,077	2,065,520	2,148,141	2,234,067	2,323,430	2,416,367
Federal Fund Reim.	-	-	-	-	-	-	-
Capital Expenditure Reconciliation	-	-	-	-	-	-	-
Liquidity Requirement	645,594	675,781	707,434	740,611	775,391	811,855	850,086
Liquidity Requirement Cashflow Set-aside	28,782	30,187	31,652	33,178	34,780	36,463	38,232
Subordinate DSRF Interest Earnings	-	-	-	-	-	-	-
Subordinate Special Revenue Bonds DSRF Interest Earnings	-	-	-	-	-	-	-
General Reserve Fund Before Subordinate Debt	1,461,939	1,696,536	2,050,781	2,533,140	3,228,491	4,221,595	5,511,654
Subordinate and Sub. Special Revenue Bonds Debt Service	911,845	936,259	962,036	988,666	951,333	912,529	677,885
Tax-Exempt Subordinate Bonds Debt Service	521,226	531,164	541,917	552,980	528,145	502,238	483,071
Taxable Subordinate Bonds Debt Service	2,575	2,567	2,565	2,563	2,560	2,557	2,549
Subordinate Special Revenue Bonds Debt Service	388,045	402,527	417,554	433,123	420,628	407,734	192,265
Net Funds Remaining Before Act 44 Payments	550,094	760,277	1,088,745	1,544,474	2,277,157	3,309,065	4,833,769

Pennsylvania Turnpike Commission
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	2051	2052	2053	2054	2055	2056	2057
Act 44 Payment Sources							
Turnpike Cash	450,000	450,000	450,000	450,000	450,000	450,000	450,000
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-
Taxable Subordinate Bond Proceeds	-	-	-	-	-	-	-
Subordinate Special Revenue Bond Proceeds	-	-	-	-	-	-	-
Roads & Bridges Payments	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Roads & Bridges Total Sources	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-
Turnpike Cash	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Subordinate Special Revenue Bond Proceeds	-	-	-	-	-	-	-
Transit Capital Payments	-	-	-	-	-	-	-
Transit Capital Total Sources	-	-	-	-	-	-	-
Turnpike Cash	-	-	-	-	-	-	-
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-
Transit Operations Payments	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Transit Operations Total Sources	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Turnpike Cash	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-
Taxable Subordinate Bond Proceeds	-	-	-	-	-	-	-
Total Act 44 Payments	450,000	450,000	450,000	450,000	450,000	450,000	450,000
Total Act 44 Sources	450,000	450,000	450,000	450,000	450,000	450,000	450,000
Remaining Turnpike Cash	100,094	310,277	638,745	1,094,474	1,827,157	2,859,065	4,383,769
Turnpike General Reserve	745,688	986,058	1,346,179	1,835,085	2,602,549	3,670,920	5,233,855
Coverage Calculations							
Mainline Debt Service Coverage							
Senior Lien							
Pledged Revenues	5,021,772	5,267,316	5,526,323	5,799,386	6,087,268	6,392,177	6,715,082
Debt Service	(1,621,361)	(1,654,610)	(1,688,646)	(1,723,673)	(1,684,405)	(1,637,847)	(1,607,895)
Coverage	3.10 x	3.18 x	3.27 x	3.36 x	3.61 x	3.90 x	4.18 x
Subordinate Lien							
Pledged Revenues	5,021,772	5,267,316	5,526,323	5,799,386	6,087,268	6,392,177	6,715,082
Debt Service	(2,145,162)	(2,188,341)	(2,233,129)	(2,279,215)	(2,215,110)	(2,142,642)	(2,093,515)
Coverage	2.34 x	2.41 x	2.47 x	2.54 x	2.75 x	2.98 x	3.21 x
Subordinate Special Revenue Lien							
Pledged Revenues	5,021,772	5,267,316	5,526,323	5,799,386	6,087,268	6,392,177	6,715,082
Debt Service	(2,533,207)	(2,590,869)	(2,650,682)	(2,712,338)	(2,635,738)	(2,550,376)	(2,285,780)
Coverage	1.98 x	2.03 x	2.08 x	2.14 x	2.31 x	2.51 x	2.94 x

B. Financial Management Polices

PTC 502005539 (12/05)

<table>
<tr><td rowspan="3"></td><td rowspan="3">PENNSYLVANIA TURNPIKE COMMISSION
POLICY AND PROCEDURE</td><td>Number:
7.1</td></tr>
<tr><td>Approval Date:
1/19/2010</td></tr>
<tr><td>Effective Date:
2/3/2010</td></tr>
<tr><td colspan="1" rowspan="2">Policy Subject:
Investment Policy and Guidelines</td><td>This is a statement of official Pennsylvania Turnpike Commission Policy</td><td>Revised Date:
1/13/2010</td></tr>
<tr><td colspan="2">Responsible Department:
Finance Department</td></tr>
</table>

A. Purpose:

To define guidelines and operational factors governing the investment of financial assets of the Pennsylvania Turnpike Commission.

B. Investment Objectives:

A. The safety and preservation of invested funds.

B. To maintain adequate liquidity to meet Commission cash flow requirements.

C. Maximize the Total Rate of Return.

D. Provide preference to Pennsylvania investments when the ROI is no less than equal to the non-Pennsylvania investment.

C. Investment Guidelines:

A. Eligible Securities (to the extent permitted by any applicable indenture of trust)

1. U. S. Treasury Bills, Notes, Bonds, Strips
2. Time Deposits issued by a banking association organized and doing business under the laws of the United States of America or of any state that have a combined capital and surplus of at least $50,000,000.
3. Certificates of Deposit that are fully collateralized and issued by a bank, savings and loan or trust company organized under the laws of the United States or any state thereof.
4. Investment Agreements with a bank, a bank holding company or a financial institution that has outstanding long-term indebtedness rated "AA" or better by Moody's and S&P.

5. Obligations of any of federal agencies which obligations are backed by the full faith and credit of the United States of America, including (but not limited to):

    - Export-Import Bank
    - Farm Credit System Financial Assistance Corporation
    - Farmers Home Administration
    - General Services Administration
    - U.S. Maritime Administration
    - Small Business Administration
    - Government National Mortgage Association (GNMA)
    - U.S. Dept. of Housing and Urban Development (PHAs)
    - Federal Housing Administration

6. Senior debt obligations rated "AAA" by Standard & Poor's Ratings Group ("Standard & Poor's) and "Aaa" by Moody's Investors Service ("Moody's) issued by the following Government-Sponsored Enterprises (referred to as "Federal Agencies" throughout this policy):

    - Federal Home Loan Bank
    - Federal Farm Credit Bank
    - Federal Home Loan Mortgage Corporation
    - Federal National Mortgage Association

7. Mortgage-backed securities issued by an approved Federal Agency and Collateralized Mortgage Obligations, so long as such securities are rated Aaa by Moody's and AAA by Standard & Poor's.

8. Debt obligations of any state or local government entity, whether for itself, or as a conduit issuer, provided that the securities are rated in the Aa/AA category by at least two of Standard & Poor's, Moody's and Fitch Investors Service ("Fitch") and do not have a rating from any of Standard & Poor's, Moody's and Fitch below the Aa/AA category (without regard to subcategories of ratings), and provided that if a short-term rating is provided for the securities that they are rated in the top tier by at least two of the three of Standard & Poor's (A1 or better), Moody's (VMIG1 or P1), and Fitch (F1) and do not have a rating from any of the three rating agencies below such levels.

9. Commercial Paper rated by at least two of Standard and Poor's, Moody's and Fitch and not less than "A-1/P-1/F-1" by Standard & Poor's, Moody's and Fitch, respectively.

10. Corporate Bonds rated "Aa3/AA-" or better by Moody's and S&P.

11. Asset-Backed Securities rated "AAA" by Moody's and S&P.

12. Repurchase agreements with banks or primary government dealers reporting to the Federal Reserve Bank of New York ("Repurchasers"), collateralized by investments with a minimum 102% valuation in securities described above in paragraphs 1, 5 and 6.

13. Share or Certificates in any short-term investment fund that invests not less than 90% of its assets in obligations described in (1) or (2) above.

B. Diversification

1. No limitations are placed on Investments carrying the full faith and credit of the U.S. Government, including repurchase agreements collateralized by such investments.

2. Investments in any single Federal Agency not carrying the Full Faith and Credit of the U.S. Government are limited to 35% of the Portfolio.

3. Investments in Certificates of Deposit or Investment Agreements in total are limited to 30% of the Portfolio.

4. The combined exposure to Commercial Paper, Corporate Bonds and Asset-Backed Securities is limited to 35% of the total Portfolio.

5. Investments in any one single issuer (excluding U. S. Treasury and Federal Agency securities) are limited to 5% of the Portfolio.

C. Quality

All Investments shall be made with judgment and care, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived.

All investment ratings shall be based on security ratings at the time of purchase. In the event of a downgrade in rating, the Portfolio Manager is to discuss such downgrade as soon as possible with the Chief Financial Officer or his designee with a recommendation on whether to sell or hold. The portfolio's average credit quality should be rated Aa3/AA- or better by Moody's / S&P.

D. Maturity

At the time of purchase, the maturity of each security in the Portfolio may not exceed five (5) years, taking into account any call, put, prepayment, or other features that may impact maturity. Similarly, the weighted average life of mortgages and asset-backed securities may not be more than 5 years.

E. Turnover

The Portfolio Managers shall follow a semi-active approach to investment management whereby investments are generally purchased with the intent of holding to maturity, but the Portfolio Managers have the flexibility to restructure and rebalance portfolio holdings to manage risk and take advantage of market opportunities.

D. Performance Benchmark:

A. The Portfolio Manager shall work with the Chief Financial Officer or his designee to develop appropriate benchmarks for the various funds invested by the Commission, and shall compare the returns of the individual Portfolio segments to such benchmarks.

E. Periodic Review:

The Investment Policy Committee of the Commission shall prepare an investment report to the Commissioners on a quarterly basis, including a management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the latest reporting period. Both Investment performance and conformity with this Investment Policy shall be reported.

F. Amendments:

This Investment Policy shall be reviewed annually by the Investment Policy Committee. Any amendments to the Investment Policy must be approved by the Commission.

This Policy Letter supersedes all previous Policy Letters on this subject.

PTC 502005539 (02/01)

	PENNSYLVANIA TURNPIKE COMMISSION POLICY AND PROCEDURE	Number:	7.3
		Approval Date:	4/20/04
		Effective Date:	5/05/04
Policy Subject: Debt Management Policy	*This is a statement of official Pennsylvania Turnpike Commission Policy*	Revised Date:	
	Responsible Department:	Treasury Management Dept.	

I. Purpose

The purpose of this policy is to establish sound, prudent and appropriate parameters and to provide guidance governing the issuance, management, continuing evaluation of and reporting on all debt obligations issued by the Pennsylvania Turnpike Commission ("Commission"), and to provide for the preparation and implementation necessary to assure compliance and conformity with this policy. Recognizing the importance and value to the Commission's creditworthiness and marketability of the Commission's bonds, this policy is intended to ensure that any and all potential debt structures comply with all applicable laws and regulations, as well as sound financial principles.

II. Policy Statement

Under the governance and guidance of its various Indentures, the Commission may periodically enter into debt obligations to finance the construction of infrastructure and other assets or to refinance existing debt for the purpose of meeting its responsibilities to users of the Turnpike. It is the Commission's desire and direction to assure that such debt obligations are issued and administered in such fashion as to obtain the best long-term financial advantage to the Commission.

The Commission will limit long-term borrowing to fund capital improvements, projects, or equipment that cannot be financed from current financial resources. In an effort to maximize capital funding availability, the Commission shall utilize a reasonable mix of borrowing and pay-as-you-go funding. The Commission will not fund current operations or normal maintenance from the proceeds of long-term financing.

The Commission shall seek to attain bond ratings so borrowing costs are minimized and access to credit is preserved. It is imperative that the Commission demonstrates to rating agencies, investment bankers, creditors and users of the Turnpike that Commission officials are following a prescribed financial plan and adhering to sound financial policy. The Commission will follow a practice of full disclosure by regularly communicating with bond rating agencies and Nationally Recognized Municipal Securities Information Repositions (NRMSR) to inform them of the Commission's current financial condition and future financial outlook.

The Commission will strive to review this Debt Management Policy on an annual basis and update it on a timely basis as necessary.

III. Uses

Bond proceeds are limited to financing the costs of planning, design, land acquisition, buildings, permanent structures, attached fixtures or equipment and "rolling stock" equipment. Acceptable uses of bond proceeds can be viewed as items that can be capitalized. Non-capital furnishings and supplies are not to be financed from bond proceeds. Refunding bond issues that are intended to restructure currently outstanding debt in order to reduce debt service costs are an acceptable use of bond proceeds.

The Commission may use short-term borrowing to finance operating needs but only in the case of an extreme financial liquidity condition that is beyond its control or reasonable ability to forecast.

IV. Decision Analysis

The Ten Year Capital Plan ("Capital Plan") is the process for identifying both short and long-term needs, establishing priorities, examining long-range financial implications and the overall effectiveness of funding such long term needs with debt. The Capital Plan will be prepared on an annual basis and will list each project and its priority, its estimated cost and proposed funding source. The Commission will measure the impact of total debt service requirements including both outstanding and proposed debt obligations on one, five, ten and thirty-year periods. This analysis will include debt service maturities and payment patterns.

The Commission will use the services of qualified internal staff and external advisors to assist in the analysis, evaluation, and decision process. In addition to debt analysis, the decision process may include financial, government and economic reviews. For example, potential funding streams may be identified and their respective financial and legal impacts assessed versus various alternatives.

V. Specific Debt Policies, Ratios and Measurement

This section of the Debt Management Policy establishes guidance for target debt policies, ratios and measurements for the Commission in the following categories:

A. Constraints, Ratios and Measurements

B. Measurements of Future Flexibility

A. Constraints, Ratios and Measures

The following constraints, ratios and measures shall govern the issuance and administration of debt obligations:

1. **Purposes of Issuance -** The Commission will issue debt obligations for acquiring, constructing, reconstructing or renovating Capital Improvements or for refinancing existing debt obligations for any other permitted purpose.

2. **Maximum Maturity -** All debt obligations shall have a maximum maturity of the earlier of: (i) the estimated useful life of the Capital Improvements being financed; or, (ii) thirty years (unless a longer term is recommended by external advisors): or, (iii), in the event they are being issued to refinance outstanding debt obligations, the final maturity of the existing debt obligations being refinanced, or the latest estimate of the useful life of the capital improvements originally financed with the refunded bonds.

3. **Annual Debt Service -** The Commission will strive to structure debt issues to maintain a level or declining overall annual debt service structure.

4. **Variable Rate Debt –** The Commission will strive to maintain unhedged variable rate debt levels no greater than 25% of its total outstanding debt. On a periodic basis the Commission will reassess its acceptable level of variable rate debt assets in order to maintain a relative balance that mitigates potential long-term interest rate risk exposure under conditions of either rising or declining market interest rates.

5. **Present Value Savings –** The Commission shall continually monitor its outstanding debt for the purpose of determining if existing financial marketplace conditions afford the Commission the opportunity to refund existing issues and lessen debt service costs. In order to consider and favorably recommend the possible refunding of an issue, the Commission will generally look to attain at least a minimum acceptable threshold level of net Present Value (PV) savings over the life of the respective issue.

6. **Bond Covenants and Laws -** The Commission shall comply with all covenants and requirements of the bond resolutions, and state and federal laws authorizing and governing the issuance and administration of debt obligations. Further, the Commission shall consult with bond counsel regarding any such legal issues.

7. **Rate Covenant as to Tolls for Traffic -** The Commission covenants that at all times it will establish and maintain schedules of tolls for traffic over the system so that net revenues will be sufficient to provide funds for the greater of:

    a. 130% of annual debt service for such fiscal year on all applicable long-term indebtedness; or

    b. 100% of maximum annual debt service on all applicable long-term indebtedness, plus amounts of required transfers to Reserve Maintenance Fund and amounts to restore deficiencies in the Debt Service Reserve Fund;

plus, in either such case, the amount of short-term indebtedness outstanding for more than a year. In addition, net revenue in excess of the sum of the amounts of (1) and (2) above, together with other revenues pledged to the payment of subordinated indebtedness, shall be sufficient to pay the annual debt service for any subordinated indebtedness.

Capitalized terms used on this page are defined in the Commission's restated indenture for its toll revenue bonds.

B. Measurements of Future Flexibility

The Commission's future flexibility is governed through the following Indenture covenants and policies:

1. **Limitations on Issuance of Additional Bonds –** The Commission agrees that it will not issue any additional bonds constituting long-term indebtedness unless the following conditions are met:

   a. Historical pro forma debt service coverage ratio for the most recent fiscal year was not less than 1.75.

   b. Net revenues of the Commission during the preceding fiscal year were at least 130% of the maximum annual debt service and the projected debt service coverage ratio is not less than 1.30.

2. **Structure of Additional Bonds -** The Commission will attempt to structure bond issues with call provisions consistent with current market conditions and with a goal to maximize flexibility with future refunding opportunities. The Commission may use premium or discount bonds to enhance the marketing of the bonds and will analyze the cost in relation to future refunding opportunities and impact on debt service. Finally, the Commission may consider using capitalized interest only if there are budgetary constraints that need to be addressed by phasing in debt service impact.

3. **Uncommitted General Fund Balance –** The Commission will adhere to its Liquidity Policy that requires minimum balances to be maintained at all times in the Reserve Maintenance Fund and General Reserve Fund. The Policy is specifically stated as follows:

   "The Pennsylvania Turnpike Commission will budget and maintain a cumulative Fund Balance, including cash balances in both the Reserve Maintenance Fund and the General Fund, equal to the greater of either the annual debt service of bonds not secured by a Debt Service Reserve Fund or 10% of annual budgeted revenues."

VI. Sale of Bonds

The Commission shall choose the method of sale of its bonds (competitive versus negotiated) in light of financial and market conditions as well as considering an assessment of the different benefits associated with each method.

The Commission shall require its financial advisor in conjunction with the senior underwriter(s) to prepare a marketing plan that includes recommended distribution rules (that will enhance the marketing effort), descriptions of similar transactions in the market place and their rates of interest, prevailing market information and any other financial information deemed relevant.

VII. Derivative Products

The Commission will consider the use of derivative products in connection with the overall debt plan as a means of reducing debt service costs, increasing flexibility, hedging interest rate risk and accessing different investor markets. Additionally, the Commission will strive to only use derivative products after an analysis of the economic benefit of the interest rate swap market in relation to traditional financing methods has been undertaken and indicates a significant financial economic benefit without excessive or unacceptable levels of risk.

The Commission will comply with prevailing state law, if any, regarding the use of derivative products as well as certain disclosure requirements as specified by the Governmental Accounting Standard Board ("GASB"). The GASB recently issued GASB Technical Bulletin No. 2003-1 in June 2003 that requires a governmental entity to provide additional disclosure of derivatives not reported at fair value on the statement of net assets. The Commission has decided to incorporate the technical bulletin requirements into its audited financial statements ending fiscal year May 31, 2003.

The Commission has developed a separate Interest Rate Swap Policy. The policy addresses such issues as Scope and Authority, Conditions for the Use of Interest Rate Swaps, Interest Rate Swap Features, Evaluation, Management and Monitoring of Interest Rate Swap Risks and Selecting and Procuring Interest Rate Swaps. The Commission's policy and guidelines regarding Interest Rate Swaps are documented in the Commission's Interest Rate Swap Policy.

VIII. Disclosure and Financial Reporting

The Commission will ensure that there is full and complete disclosure to rating agencies and other applicable regulatory bodies of all debt obligations. Offering documents for debt of the Commission shall also fully describe all outstanding debt as well all relevant information regarding the Commission and the particular financing transaction as required under federal securities law, subject to advice of bond counsel. The Commission will adhere to the guidelines for the financial reporting of debt obligations as recommended by the Government Accounting Standards Board ("GASB") or any other applicable regulatory agency.

<table>
<tr><td rowspan="3"></td><td rowspan="3" colspan="2">PENNSYLVANIA TURNPIKE COMMISSION
POLICY AND PROCEDURE</td><td>Number:</td><td>7.6</td></tr>
<tr><td>Approval Date:</td><td>04/20/2004</td></tr>
<tr><td>Effective Date:</td><td>05/05/2004</td></tr>
<tr><td colspan="2" rowspan="2">Policy Subject:
Liquidity Standard Policy</td><td>This is a statement of official Pennsylvania Turnpike Commission Policy</td><td>Revised Date:</td><td></td></tr>
<tr><td>Responsible Department:</td><td colspan="2">Treasury Management Dept.</td></tr>
</table>

A. Purpose:

The purpose of this policy is to ensure that the Pennsylvania Turnpike Commission will maintain minimum annual year-end fund balances for the ongoing level of uncommitted reserves necessary for the Commission to secure and protect its long-term debt.

B. General Policy:

The Pennsylvania Turnpike Commission will budget and maintain a cumulative fund balance, including cash balances in the Reserve Maintenance Fund and the General Reserve Fund, equal to the greater of either the maximum annual debt service on all bonds not secured by a Debt Service Reserve Fund or 10% of annual budgeted revenues.

Agenda Item F-1

PENNSYLVANIA TURNPIKE COMMISSION AGENDA ITEM

APPROVED BY PENNSYLVANIA TURNPIKE COMMISSION 5/7/13
Assistant Secretary and Treasurer

Date: May 7, 2013

To: THE PENNSYLVANIA TURNPIKE COMMISSION

From: Nikolaus Grieshaber, Chief Financial Officer

Subject: Revised Policy Letter 7.7, Interest Rate Swap Management Policy

Funding Source: Operating/Capital Funding WBS#

It is recommended that the Commission authorize and approve the following:

Proposed Amendments to Policy Letter 7.7 – Interest Rate Swap Management Policy to

1. **Reflect the incorporation of certain requirements of the federal Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.**
    a. **Specifically:**
        i. **Dodd-Frank implements, among other things, certain policies and procedures pertaining to the interaction between swap dealers and swap counterparties (such as the Commission);**
        ii. **Such procedures are aimed at providing a level of "consumer protections" to swap dealer counterparties (such as the Commission).**

and

2. **Update the Commission's Swap policies to reflect current trends in the use and management of derivatives.**

☐ Validation Memo attached (if necessary)

☐ Sole Source Request attached (if necessary)

Rick Dreher
Assistant CFO for Financial Mgt.

Nikolaus Grieshaber
Chief Financial Officer

CONCUR:

Mark P. Compton
Chief Executive Officer

PTC 502005539 (12/05)

<table>
<tr><td rowspan="3">PENNA TURN-PIKE</td><td rowspan="3" colspan="2">PENNSYLVANIA TURNPIKE COMMISSION POLICY AND PROCEDURE</td><td>Number:
7.7</td></tr>
<tr><td>Approval Date:
5/07/2013</td></tr>
<tr><td>Effective Date:
5/07/2013</td></tr>
<tr><td colspan="2" rowspan="2">Policy Subject:
7.7 - Interest Rate Swap Management Policy</td><td>This is a statement of official Pennsylvania Turnpike Commission Policy</td><td>Revised Date:
5/07/2013</td></tr>
<tr><td colspan="2">Responsible Department:
Finance and Administration Department</td></tr>
</table>

I. <u>Introduction</u>:

The purpose of the Interest Rate Swap Policy ("Policy") of the Pennsylvania Turnpike Commission ("Commission") is to establish guidelines for the use and management of all interest rate management agreements, including, but not limited to, interest rate swaps, swaptions, caps, collars and floors (collectively "Swaps" or "Agreements") incurred in connection with the incurrence of debt obligations as authorized by the Commission's Debt Policy (attached as Exhibit A). The Policy sets forth the manner of execution of Swaps and Agreements, provides for security and payment provisions, risk considerations, record keeping requirements and certain other relevant provisions as well as being responsive to (i) the 2003 recommended practices of the Government Finance Officers Association regarding the contents of an interest rate swap policy, (ii) swap market practices and Protocols (as defined herein) in response to the Dodd-Frank Act (as defined herein), other applicable laws relating to Swaps and related rules or regulations, including, without limitation, rules and regulations of the Commodity Futures Trading Commission (the "CFTC"), the Securities and Exchange Commission (the "SEC") (i.e., relating to security-based swaps or mixed interest rate and security-based swaps) or the Municipal Securities Rulemaking Board (the "MSRB") and (iii) changes to, enhancements of, and deterioration in the swap market and its participants. The failure by the Commission to comply with any provision of this Policy shall not invalidate or impair any Swap or Agreement or the Commission's adherence to a swap industry Protocol (*e.g.*, the International Swaps and Derivatives Association, Inc. ("ISDA") August 2012 Dodd-Frank Protocol) or similar agreement (including, without limitation, any bilateral agreement with a Swap counterparty).

II. <u>Scope and Authority</u>:

This Policy shall govern the Commission's use and management of all Swaps. This Policy describes the circumstances and methods by which Swaps will be evaluated, incurred, monitored, used, administered, managed and terminated, the guidelines to be employed when Swaps are used, and parties responsible for carrying out this Policy. While adherence to this Policy is required in applicable circumstances, the Commission recognizes that changes in the capital markets, agency programs, swap and financial market regulations and other unforeseen circumstances may from time to time produce situations that are not covered by the Policy and will require modifications or exceptions to achieve policy goals.

The Chief Financial Officer and the Assistant Chief Financial Officer for Financial Management are the designated administrators of the Commission's Policy. The Chief Financial Officer shall have the day-to-day responsibility and authority for structuring, implementing, and managing Swaps.

The Commission shall be authorized to enter into Swap transactions only with qualified Swap counterparties. The Commission, in consultation with the Chief Financial Officer, shall select the counterparties, in adherence with the criteria set forth in the Policy.

III. Conditions for the Use of Swaps

A. General Usage

Due to the effects of continual innovation in the financial markets, this Policy recognizes that the reasons for, or desirability of, the use of Swaps may change over time. The Commission will use Swaps to hedge interest rate movement, basis risk and other risks, to lock-in a fixed rate or, alternatively, to create synthetic variable rate debt. Swaps may also be used to produce interest rate savings, limit or hedge variable rate payments, alter the pattern of debt service payments, manage exposure to changing market conditions in advance of anticipated bond issues (through the use of anticipatory hedging instruments) or for asset/liability matching purposes.

B. Maximum Notional Amount

The Commission will limit the total notional amount of outstanding Swaps based on criteria set forth in this Policy regarding the proper management of risks, calculation of termination exposure, and development of a contingency plan. In no event, however, shall the Commission's exposure to any counterparty rated A/A- or lower exceed 50% of the Commission total debt.

C. Impact of use of Liquidity

The Commission shall consider the impact of any variable rate bonds issued in combination with a Swap on the availability and cost of liquidity support for other Commission variable rate programs.

D. Call Option Value Considerations

When considering the relative advantage of a Swap versus fixed rate bonds, the Commission will take into consideration the value of any call option on fixed rate bonds.

E. Qualified Hedges

The Commission understands that, (1) if payments on and receipts from the Agreement are to be taken into account in computing the yield on the related bonds, the Agreement must meet the requirements for a "qualified hedge" under federal tax law (sometimes referred to as an "integrated" Swap); and (2) if one of the goals of entering into the Agreement is to convert variable yield bonds into fixed yield bonds (sometimes referred to as a "super integrated swap"), then certain additional requirements must be met. In both of these situations, the terms of the

Agreement and the process for entering into the Agreement must be reviewed and approved in advance by legal counsel.

F. Evaluation of Swap Risks

Prior to the execution of any Swap transaction, the Chief Financial Officer, the Assistant Chief Financial Officer for Financial Management, and Commission's Swap Advisor and legal counsel shall evaluate the proposed transaction and report the findings. Such a review shall include the identification and evaluation of the proposed benefit and potential risks.

Evaluation Methodology:

The Commission will review the following areas of potential risk for new and existing Swaps:

Type of Risk	**Description**	**Evaluation Methodology**
Basis risk	The mismatch between actual variable rate debt service and variable rate indices used to determine Swap payments.	The Commission will review historical trading differentials between the variable rate bonds and the index.
Tax risk	The risk created by potential tax events that could affect Swap payments.	The Commission will review the tax events in proposed Swap agreements. The Commission will evaluate the impact of potential changes in tax law on LIBOR indexed Swaps.
Counterparty risk	The failure of the counterparty to make required payments.	The Commission will monitor exposure levels, ratings thresholds, and collateralization requirements.
Termination risk	The need to terminate the transaction in a market that dictates a termination payment by the issuer.	The Commission will compute its termination exposure for all existing and proposed Swaps at market value and under a worst- case scenario.
Rollover risk	The mismatch of the maturity of the Swap and the maturity of the underlying bonds.	The Commission will determine, in accordance with its Debt Policy, its capacity to issue variable rate bonds that may be outstanding after the maturity of the Swap.
Liquidity risk	The inability to continue or renew a liquidity facility.	The Commission will evaluate the expected availability of liquidity support for swapped and unhedged variable rate debt.
Credit risk	The occurrence of an event modifying the credit rating of the issuer or its counterparty.	The Commission will monitor the ratings of its counterparties and insurers.

Prior to entering into any Protocol or similar agreement, the Chief Financial Officer, the Assistant Chief Financial Officer for Financial Management, and the Commission's Swap Advisor and legal counsel will evaluate prevailing market practices and requirements, legal requirements, the Protocol or similar agreement's impact on the efficiency of managing the Commission's Swaps, the Protocol or similar agreement's impact on communications with, and the receipt of information from, existing and potential Swap counterparties, and the extent of the need for, and the adequacy of, contractual or regulatory protections available to the Commission with respect to the Swaps to be covered by such Protocol or similar agreement.

IV. Award

The Swap must contain financial terms and conditions that are fair and reasonable to be evidenced in a letter from a qualified independent Swap Advisor that satisfies the requirement for a "Qualified Independent Representative" under CFTC Regulation 23.450 implementing business conduct standards pursuant to the Dodd-Frank Act and any other applicable law relating to Swaps as described in Section VII.E. below.

V. Swap Features

A. Swap Agreement

The Commission will use terms and conditions as set forth in the International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement and may use the ISDA August 2012 Dodd-Frank Protocol or such other documentation as the Commission, in consultation with its legal counsel and Swap Advisor, deems necessary in connection with meeting market requirements related to the swap provisions of the Dodd-Frank Act or other applicable laws relating to Swaps. The Swap agreement between the Commission and each counterparty shall include payment, term, security, collateral, default, remedy, termination, and other terms, conditions, provisions and safeguards as the Commission, in consultation with its legal counsel and Swap Advisor, deems necessary or desirable.

Subject to the provisions contained herein, the terms of any Commission Swap agreement shall use the following guidelines:

(i) Downgrade provisions triggering termination shall in no event be worse than those affecting the counterparty.

(ii) Governing law for Swaps will be the State of New York. Issues relating to jurisdiction, venue, waiver of jury trial and sovereign immunity will be subject to prevailing law and approval of the Commonwealth Attorney General. Preference will be given to language providing that the counterparty will consent to jurisdiction in the Pennsylvania courts with respect to enforcement of the Agreement.

(iii) The specified indebtedness related to credit events in any Swap agreement should be narrowly defined and refer only to indebtedness of the Commission that could have a materially adverse effect on Commission's ability to perform its obligations under the Swap. Debt should typically only include obligations within the same lien as the Swap obligation.

(iv) Collateral thresholds for the Swap provider should be set on a sliding scale reflective of credit ratings. Collateral requirements should be established and based upon the credit ratings of the Swap provider or guarantor. The Trustee or an independent third party or the counterparty if so directed should hold collateral.

(v) Eligible collateral should generally be limited to Treasuries and obligations of Federal Agencies where the principal and interest are guaranteed by the United States. The market value of the collateral shall be marked to market no less than Bi-Monthly.

(vi) The Commission shall have the right to optionally terminate a swap agreement at "market," at any time over the term of the agreement.

(vii) Termination value should be set by "second method" and "market quotation" methodology, unless the Commission deems an alternate appropriate.

B. Swap Counterparties

1. Credit Criteria

The Commission will make its best efforts to work with qualified Swap counterparties that have a general credit rating of: (i) at least "A3" or "A-" by two of the nationally recognized rating agencies and not rated lower than "A3" or "A" by any nationally recognized rating agency, or (ii) have a "non-terminating" "AAA" subsidiary as rated by at least one nationally recognized credit rating agency. The nationally recognized rating agencies are Moody's Investors Services, Inc., Standard and Poor's Rating Services, and Fitch Ratings.

In addition to the rating criteria specified herein, the Commission will seek additional credit enhancement and safeguards in the form of:
Contingent credit support or enhancement;

i. Collateral consistent with the policies contained herein;
ii. Ratings downgrade triggers;
iii. Guaranty of parent, if any.

In addition, qualified Swap counterparties must have a demonstrated record of successfully executing Swap transactions as well as creating and implementing innovative ideas in the Swap market.

2. Counterparty Termination Exposure

In order to manage the Commission's counterparty credit risk, and credit exposure to any one counterparty, the Commission will seek to avoid excessive concentration of exposure to a single counterparty or guarantor by diversifying its counterparty exposure over time. Exposure to any counterparty will be measured based on the aggregate termination value of all Swaps entered into with the counterparty. Termination value will be determined at least monthly, based on a mark-to-market calculation of the cost of terminating a Swap given the market conditions on the valuation date. Aggregate Swap termination value for each counterparty should take into account netting of offsetting transactions (i.e. fixed-to-floating and floating-to-fixed).

C. Term and Notional Amount

For Swaps tied to an issued series of bonds, the term of the Swap agreement shall not extend beyond the final maturity date of the related bonds. The total net notional amount of all Swaps related to a bond issue should not exceed the amount of outstanding bonds. In calculating the net notional amount, netting credit shall be given to any Swaps that offset each other for a specific bond transaction.

D. Security and Source of Repayment

The Commission may use the same security and source of repayment (pledged revenues) for Swaps as is used for the bonds that are hedged or carried by the Swap, if any, but shall consider the economic costs and benefits of subordinating the Commission's payments and/or termination payment under the Swap. The Commission shall consult with legal counsel regarding the legal requirements associated with making the payments under the Swap on a parity or non-parity basis with outstanding Commission debt.

E. Prohibited Agreements

The Commission will not use Agreements that:

i. Are speculative or create extraordinary leverage as risk;
ii. Lack adequate liquidity to terminate without incurring a significant bid/ask spread;
iii. Provide insufficient price transparency to allow reasonable valuation.

VI. Managing Ongoing Swap Risks

A. Amendments, Modifications, Novations and Terminations

To permit the Commission to minimize risks, burdens or costs associated with, and to have the flexibility to manage the continuing obligations under, each Swap, and any related agreement necessary for the consummation of the transactions contemplated by each Swap (in each case, including without limitation, managing actual or expected collateral requirements, protecting against the risk of counterparty default, minimizing the risk of variations or increases in financing costs and ensuring compliance with applicable law), the Commission may enter into amendments, modifications or novations of, or optionally terminate, in whole or in part, any Swap or any Agreement based on the written advice of a Swap Advisor, that (a) the amendment, modification, novation or optional termination is (i) justified by the corresponding benefit to the Commission, and (ii) commercially reasonable based on then-current market conditions, and (b) any payments made or to be made by the counterparty to the Commission, or by the Commission to the counterparty, are fair value for such amendment, modification, novation or optional termination, given the credit of the counterparty and the terms and conditions of the amendment, modification, novation or optional termination.

B. Swap Portfolio Review

1. Annual Swap Report

The Assistant Chief Financial Officer for Financial Management, in consultation with the Commission's Swap Advisor and legal counsel, will evaluate the risks associated with outstanding Swaps at least annually and provide to the Senior Executives and the Commissioners a written report of the findings. This evaluation will include the following information:

i. A description of all outstanding Swaps, including related bond series, types of Swaps, rates paid and received by Commission, existing notional amount, the average life and remaining term of each Swap agreement, and the current mark to market value of all outstanding Swaps.

ii. Separately for each Swap, the actual debt service requirements versus the projected debt service on the Swap transaction; and for any Swaps used as part of a refunding, the actual cumulative savings versus the projected savings at the time the Swap was executed.

iii. The credit rating of each Swap counterparty, parent, guarantor, and credit enhancer insuring Swap payments, if any.

iv. Actual collateral posting by Swap counterparty, if any, per Swap agreement and in total by Swap counterparty.

v. Information concerning any material event involving outstanding Swap agreements, including a default by a Swap counterparty, counterparty downgrade, or termination.

vi. An updated contingency plan to replace, or fund a termination payment in the event an outstanding Swap is terminated.

vii. The status of any liquidity support used in connection with Swaps, including the remaining term and current fee.

The Assistant Chief Financial Officer for Financial Management shall review the Policy at least annually, and suggest revisions or updates as deemed appropriate.

2. Contingency Plan

The Assistant Chief Financial Officer for Financial Management, in consultation with the Commission's Swap Advisor and legal counsel, shall compute the mark to market exposure of each of its Swaps and its total Swap mark to market exposure at least annually and prepare a contingency plan to either replace the Swaps or fund the termination payments, if any, in the event one or more outstanding Swaps are terminated. The Assistant Chief Financial Officer for Financial Management shall assess the ability to obtain replacement Swaps and identify revenue sources to fund potential termination payments. The Assistant Chief Financial Officer for Financial Management shall also evaluate the economic costs and benefits of incorporating a provision into the Swap agreement that will allow the Commission to make termination payments over time.

3. Termination Matrix

The Assistant Chief Financial Officer for Financial Management, in consultation with the Commission's Swap Advisor and legal counsel, shall prepare a matrix for each individual Swap and for all Swaps in the aggregate setting forth the termination costs under various interest rate scenarios.

C. Terminating Interest Rate Swaps

1. Optional Termination

The Commission, in consultation with its Swap Advisor and legal counsel, may optionally terminate a Swap subject to complying with the requirements set forth in Section VI.A. above.

2. Termination Events

In the event a Swap is terminated or subject to termination as a result of a termination event, such as a default or a decrease in credit rating of either the Commission or the counterparty, the Assistant Chief Financial Officer for Financial Management, in consultation with the Commission's Swap Advisor and legal counsel, will evaluate whether to obtain a replacement swap, or, depending on market value, make or receive a termination payment subject to complying with the applicable requirements set forth in Section VI.A. above.

In the event the Commission makes a Swap termination payment, the Commission shall attempt to follow the process identified in its Swap contingency plan.

The determination of the value of any termination payment to be made or received by the Commission in connection with the mandatory termination of a Swap shall be reviewed and confirmed by the Commission's Swap Advisor.

VII. Selecting and Procuring Interest Rate Swaps

A. Review of Proposals

Recommendations or proposals by counterparties to enter into Swaps, or to modify, amend, novate or terminate an existing Swap, shall be evaluated by the Commission and its Swap Advisor. Unless otherwise advised by a Swap Advisor, or reasonably determined by the Commission to be unnecessary or redundant, the Commission shall not waive delivery of any disclosure or analysis required of a prospective swap counterparty by applicable law.

With respect to such recommendations or proposals, the following elements should be analyzed:

(i) The appropriateness of the Swap, or the modification, amendment, novation or optional termination of the existing Swap (for purposes hereof, the "transaction"), for the Commission based on the balance of risks and rewards presented by the proposed transaction, including a detailed description of the transactional structure, a description of the risks it presents, and risk mitigation measures;

(ii) The legal framework for the transaction within the context of Pennsylvania statutes, Commission ordinances, and relevant indenture and contractual requirements (including those contained in credit enhancement agreements), as well as any implications of the transaction under federal tax law;

(iii) Potential effects that the transaction may have on the credit ratings of any Commission obligations assigned by the rating agencies;

(iv) The potential impact of the transaction on any areas where the Commission's capacity is limited, now or in the future, including the use of variable-rate debt, bank liquidity facilities or letters of credit, and bond insurance;

(v) The ability of the Commission to handle any administrative burden that may be imposed by the transaction, including accounting and financial reporting requirements;

(vi) Information reporting requirements, if any; and

(vii) Other implications of the proposed transaction as warranted.

Approval to enter into a transaction will be subject to appropriate legal authorization. The authorization will include the appropriate Commission officials to whom relevant authority is delegated to carry out the necessary steps to enter into, monitor and administer the transaction, and the parameters within which their delegated authority may be exercised.

B. Financing Team

The Commission will use qualified legal counsel and retain the services of a qualified Swap Advisor for all Swaps. The Swap Advisor shall satisfy the requirements set forth below in VII.E. In addition, the Commission may retain the services of a qualified Financial Advisor for any Swap.

C. Underwriter Selection

In the event bonds are issued in connection with Swaps, the Commission will price the bonds according to the guidelines set forth in its Debt Policy.

D. Counterparty Selection

The Commission may use a competitive or a negotiated process to select a Swap counterparty and price a Swap as it believes business, market or competitive conditions justify such a process. The conditions under which a negotiated selection is best used are provided below:

(i) Marketing of the Swap will require complex explanations about the security for repayment or credit quality.

(ii) Demand is weak among swap counterparties.

(iii) Market timing is important, such as for refundings.

(iv) Coordination of multiple components of the financing is required.

(v) The Swap has non-standard features, such as one way collateral.

(vi) Bond insurance is not available or not offered.

(vii) The par amount for the transaction is significantly larger than normal.

(viii) Counterparties are likely to demand individual changes in bid documents.

(ix) Pricing transparency.

E. Swap Advisor Selection Requirements and Ongoing Monitoring

Each Swap Advisor selected by the Commission shall meet the following requirements to be a Qualified Independent Representative pursuant to CFTC Regulation 23.450, subject to any amendments or interpretations by the CFTC and any comparable requirements set forth by other regulators, including, without limitation, the SEC or MSRB (collectively, the "Qualified Independent Representative Requirements"). The Commission's Swap Advisor shall:

(i) have sufficient knowledge to evaluate the Swap transaction and risks;

(ii) not be subject to a statutory disqualification (under the Commodity Exchange Act);

(iii) be independent of the Commission's relevant Swap counterparty within the meaning of CFTC Regulation 23.450(c);

(iv) undertake a duty to act in the best interests of the Commission;

(v) makes appropriate and timely disclosures to the Commission of compensation and all material conflicts of interest that would be sufficient to permit the Commission to assess the conflict and take steps to mitigate it;

(vi) evaluate the fair pricing and the appropriateness of the Swap transaction; and

(vii) be subject to restrictions on certain political contributions that may be imposed by the CFTC, the SEC, or a self-regulatory organization subject to jurisdiction of the CFTC or the SEC.

The Commission's staff shall undertake on-going monitoring of each Swap Advisor's performance consistent with the Qualified Independent Representative Requirements. The Commission's staff shall determine at least annually that each Swap Advisor to the Commission reasonably appears to satisfy the Qualified Independent Representative Requirements. The Commission's staff shall also determine prior to any Swap transaction that the particular Swap Advisor or Advisors retained by the Commission in connection with such Swap transaction reasonably appear to satisfy the Qualified Independent Representative Requirements. In making the determinations described above in this paragraph, the Commission's staff may take into account any report or other documentation provided by the Swap Advisor regarding its satisfaction of the requirements in clauses (i) through (vii) above which report and other documentation shall be reviewed by the Commission's staff in consultation with legal counsel.

In addition, the Commission shall require that each Swap Advisor to the Commission has written policies and procedures reasonably designed to ensure that such Swap Advisor satisfies the applicable requirements of the Qualified Independent Representative Requirements and that each Swap Advisor provide written representations to evidence compliance with such requirement.

VIII. Disclosure and Financial Reporting

The Commission will ensure that there is full and complete disclosure of all Swaps to rating agencies, and in disclosure documents. Disclosure in marketing documents, including bond offering documents, shall provide a clear summary of the special risks involved with Swaps and any potential exposure to interest rate volatility or unusually large and rapid changes in market value. With respect to its financial statements, the Commission will adhere to the guidelines for the financial reporting of Swaps, as set forth by the Government Accounting Standards Board, the CFTC or other applicable regulatory agencies.

IX. Record Keeping

The Commission shall obtain and maintain a "legal entity identifier" or such other entity identifier as shall be provided by the CFTC from time to time and shall maintain records for Swaps in accordance with legal requirements applicable from time to time including CFTC Final Rule *Swap Data Recordkeeping and Reporting Requirements: Pre-Enactment and Transition Swaps,* 77 Fed. Reg. 35200 (June 12, 2012) and CFTC Final Rule *Swap Data Recordkeeping and*

Reporting Requirements, 77 Fed. Reg. 2136 (January 13, 2012). The Commission shall, at a minimum and subject to any future changes in law, keep full, complete and systematic records, together with all pertinent data and memoranda with respect to each Swap throughout the life of the Swap and for a period of at least five years following the final termination of the Swap in either electronic or paper form so long as the information is retrievable within five business days during the period during which it is required to be kept. The Commission shall maintain in such records any unique swap identifiers assigned by the Commission's Swap counterparties.

X. Dodd-Frank Act and Other Regulatory Developments

The Chief Financial Officer and the Assistant Chief Financial Officer for Financial Management, in consultation with the Commission's Swap Advisor and legal counsel, shall monitor regulatory developments related to Swaps pursuant to the Dodd-Frank Act, other legislation relating to Swaps and related rules and regulations and market practices in response thereto. If determined to be necessary or advantageous in order for the Commission to maintain or improve communications with, or the receipt of information from, existing or potential Swap counterparties or to facilitate any Swap transactions, the Commission may enter into such Protocols or similar agreements relating to such regulatory developments.

Glossary of Terms

Asset/Liability Matching: Matching the term and amount of assets and liabilities in order to mitigate the impact of changes in interest rates.

Bid/Ask Spread: The difference between the bid price (at which a market maker is willing to buy) and the ask price (at which a market maker is willing to sell).

Call Option: The right to buy an underlying asset (e.g. a municipal bond) after a certain date and at a certain price. A call option is frequently embedded in a municipal bond, giving the issuer the right to buy, or redeem, the bonds at a certain price.

Collateral: Assets pledged to secure an obligation. The assets are potentially subject to seizure in the event of default.

Dodd-Frank Act: The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as it may be amended.

Downgrade: A negative change in credit ratings.

Forward Starting Swap: Swaps that start at some time in the future. Used to lock-in current interest rates.

Hedge: A transaction that reduces the interest rate risk of an underlying security.

Interest Rate Swap: The exchange of interest rate payments between counterparties.

ISDA August 2012 Dodd-Frank Protocol: ISDA's Protocol published on August 13, 2012 intended to address the CFTC Final Rule, *Business Conduct Standards for Swap Dealers and Major Swap Participants With Counterparties*, 77 Fed. Reg. 9734 (February 17, 2012).

Liquidity Support: An agreement by a bank to make payment on a variable rate security to assure investors that the security can be sold.

LIBOR: The London Interbank Offer Rate. Used as an index to compute the variable rate on an interest rate swap.

Notional Amount: The amount used to determine the interest payments on a swap.

Offsetting Swap: Secondary interest rate Swap that is placed in an opposite direction from the primary interest rate Swap. The offsetting Swap is used to minimize Swap risks associated with the use of Swaps and potentially gain monetary value from the transaction.

Protocol: A multilateral contractual amendment mechanism that allows for various standardized amendments to be deemed to be made to the relevant covered swap agreements between any two adhering parties.

Termination Payment: A payment made by a counterparty that is required to terminate the Swap. The payment is commonly based on the market value of the Swap, which is computed using the rate on the initial Swap and the rate on a replacement Swap.