

# **Pennsylvania Turnpike Commission Act 44 Financial Plan Fiscal Year 2015**

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Submitted to:  
**Secretary of the Budget,  
Commonwealth of Pennsylvania**

Submitted by:  
**Pennsylvania Turnpike Commission**

Prepared by:  
**The PFM Group**



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## I. Summary

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## Summary

An act of the General Assembly of Pennsylvania, approved on July 18, 2007, P.L. 169, No 44 ("Act 44"), as amended by the Act of November 25, 2013, P.L. 794, No. 89 ("Act 89") established the framework for the Pennsylvania Turnpike Commission's ("PTC" or the "Commission") expanded 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 \$4.3 billion in funding support for Commonwealth transportation needs through payments under a Lease and Funding Agreement (the "Funding Agreement"), dated October 14, 2007 as amended on April 4, 2014, 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 \$4.8 billion in currently outstanding debt.

Act 89 substantially alters the Commission's funding obligations to PennDOT. While the Commission's aggregate payment obligation remains at \$450 million annually, beginning July 1, 2014, none of the payments will be dedicated to highways and bridges. Instead, all \$450 million will be allocated to support transit capital, operating, multi-modal and other non-highway programs. The Commission expects to finance most of this obligation with Subordinate Revenue Bond proceeds with at least \$30 million annually funded from current revenues. Since the Commission's Act 44 payments are now dedicated to transit needs, the Commission will no longer issue Subordinate Special Revenue Bonds. Beginning in fiscal 2023 the Commission's annual obligation is reduced to \$50 million, which will be funded by current revenues and dedicated to transit capital and operating needs through 2057. As a result of the changes in the Commission's funding obligations which were enacted with Act 89, the Commission revised its fiscal year 2014 financial plan and submitted an amended fiscal year 2014 financial plan ("Amended Financial Plan") to the Secretary of the Budget on March 5, 2014.

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 and fee revenue sources of the Commonwealth. 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 expanded capital plan. Reflecting the importance and economic strength of the Turnpike, fiscal 2014 transactions are estimated to have increased slightly despite the combination of sluggish economic conditions and the imposition of toll increases consisting of 10% on cash customers and 2% on E-ZPass customers in January 2013 and 12% on cash customers and 2% on E-ZPass customers in January 2014. Fiscal 2014 operating expenses are estimated to be on budget at \$337.6 million. While the effects of increased snow removal and road treatment costs due to severe winter weather conditions contributed to some increased costs, these were offset by lower than expected expenses for other categories during the year. The Senior Revenue Bond debt service coverage ratio for fiscal 2014 was 2.95x, which was somewhat higher than the 2.88x coverage ratio anticipated in the Amended Financial Plan. Subordinate Revenue Bond and Subordinate Special Revenue Bond debt service coverage ratios of 1.45x and 1.35x, respectively were also slightly higher than the Amended Financial Plan.

The fiscal 2015 financial plan reflects the full year effects of the January 2014 toll increase and the partial year impacts of a January 2015 toll increase. It is anticipated that the January 2015 toll adjustment will yield a net increase in toll rates of 5%. Fiscal 2015 operating expenses are projected to increase by 3.6% (\$12 million) to \$349.5 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 \$11.6 million of the PTC's projected increase in its fiscal 2015 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 \$682.7 million (which is consistent with ten year capital plan); and (iv) provide \$450 million in contributions required to meet its Act 44 obligations. Fiscal 2015 debt service coverage on the Commission's Senior Revenue Bonds, Subordinate Revenue Bonds and Subordinate Special Revenue Bonds is projected to be 2.93x, 1.43x and 1.31x, respectively and is consistent with the Commission's targeted debt service coverage ratios. Projected fiscal 2015 debt service coverage ratios are somewhat higher than those forecasted in the Amended Financial Plan due to slightly more favorable financing assumptions.

PTC's mandate under Act 44, as amended by Act 89 means the Commission will continue to have significant financial responsibilities to fund \$450 million annually in Commonwealth-wide transit needs through fiscal 2022. 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. However, it is important to note that Act 89 provides long term debt relief to the Commission beginning in fiscal 2023 when its annual Act 44 payment obligations will be reduced to \$50 million. This long term relief



will eliminate the need to issue Subordinate Revenue Bonds and will allow the Commission to increase the level of pay-as-you-go funding for its capital needs.

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 2015-2024 period, the capital plan calls for \$6.7 billion in spending and 1) advances the Commission's efforts for total roadway reconstruction and resurfacing; 2) continues the rehabilitation or replacement of structurally deficient bridges; 3) implements the Stage 1 design and construction of the I-95 Interchange Project, and 4) provides for the implementation of All Electronic Tolling ("AET").

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 maximum 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 2015 and 2024, the Commission is expected to issue \$9.5 billion in debt (including issuance and reserve costs). Debt issued to support Turnpike capital needs in this year's 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 \$3.6 billion during this period.

As required by Act 89, the Commission will fund at least \$30 million in annual Act 44 payments with current revenue through fiscal 2022 and all \$50 million in Act 44 payments via cash contributions beginning in fiscal 2023. 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 2015-2057 fiscal year financial plan period, PTC debt issuance is expected to total \$18.0 billion. Total debt issuance assumed in this year's long-term financial plan includes \$14.4 billion for Turnpike capital needs and \$3.6 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 2.63x through fiscal 2057, while debt service coverage of Turnpike Subordinate Revenue Bonds and Subordinate Special Revenue Bonds is at least 1.30x 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 42 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 2015, 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 February 2014 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 a \$6.7 billion fiscal 2015-fiscal 2024 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**

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## 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 552 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 16 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 48 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 are no vacancies 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 2,091 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 combination of regular toll increases, economic cycles and the mature travel market that the PTC now serves, traffic demand has remained steady since fiscal 2004. With the full year effect of the January 2013 and partial year impact of the January 2014 increases as well as a slow recovery in economic conditions, PTC estimates fiscal 2014 transactions will increase by 1.1% to 189.9 million while toll revenues will grow 6.0%.

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 \$6.7 billion capital improvement program that features 1) roadway resurfacing and total reconstruction programs; 2) the rehabilitation or replacement of structurally deficient bridges; 3) the Stage 1 design and construction of the I-95 Interchange Project; and 4) the implementation of AET.



Reflecting the growing acceptance of electronic tolling, E-ZPass market share increased to 68% of revenues in fiscal 2013 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 1.66x. After meeting all Turnpike-related obligations, PTC had an ending General Reserve Fund balance in fiscal 2013 of \$255.2 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.

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### **Act 44, Act 89 and PTC's Expanded Mandate**

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Act 44 (P.L. 169) as amended by Act 89 (P.L. 794) 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 are deposited into the Public Transportation Trust Fund. The PTC's contributions are in addition to certain dedicated taxes and fees received by the fund.

Act 89 substantially changes the allocation of the Commission's payments. Previously the Commission's \$450 million funding commitment was allocated \$200 million for highway and bridge payments and \$250 million for transit operating needs. Beginning in fiscal 2015 Act 89 dedicates all of the Commission's payments to transit and multi-modal programs. Total annual payments through fiscal 2022 remain at \$450 million and then are reduced to \$50 million from fiscal 2023 to fiscal 2057. The Commission and PennDOT executed an Amended Funding Agreement in April 2014 reflecting the new funding provisions. Exhibit 1 provides the allocation of payments by purpose pursuant to Act 89.

**Exhibit 1**  
**Act 44 as Amended by Act 89**  
**Annual Funding Requirements**  
**(\$ 000s), Fiscal Year End May 31**

	Transit			Mult-Modal Programs	Highway & Bridges	Total Funding
	Operating	Capital (*)	Subtotal			
2014	\$209,000	\$41,000	\$250,000	\$0	\$200,000	\$450,000
2015	\$187,000	\$233,000	\$420,000	\$30,000	\$0	\$450,000
2016	\$110,000	\$310,000	\$420,000	\$30,000	\$0	\$450,000
2017	\$110,000	\$310,000	\$420,000	\$30,000	\$0	\$450,000
2018	\$25,000	\$395,000	\$420,000	\$30,000	\$0	\$450,000
2019	\$25,000	\$395,000	\$420,000	\$30,000	\$0	\$450,000
2020	\$25,000	\$395,000	\$420,000	\$30,000	\$0	\$450,000
2021	\$25,000	\$395,000	\$420,000	\$30,000	\$0	\$450,000
2022	\$25,000	\$395,000	\$420,000	\$30,000	\$0	\$450,000
2023-2057	\$25,000	\$25,000	\$50,000	\$0	\$0	\$50,000

(\*) Includes funding for Alternative Energy and Projects of Statewide Significance

In fiscal 2014 \$41 million in transit payments were dedicated to capital, alternative energy projects and projects of statewide significance. Funding to transit capital increases to a maximum of \$395 million by fiscal 2018 and remains at that level through fiscal 2022. Beginning fiscal 2023 transit and other capital payments are capped at \$25 million per year. Payments for transit operations decline annually to \$25 million in fiscal 2018 and remain at that level through fiscal 2057. Fiscal 2014 represented the final year that a portion of the Commission's payment is allocated to highway and bridges. Starting in fiscal 2015 and continuing until fiscal 2022, \$30 million will be allocated to multi-modal programs.

Act 89 requires the Commission to provide at least \$30 million in funding from pay-as-you-go resources from fiscal 2015 to fiscal 2022. This amount is dedicated to transit capital expenses. Once the Commission's Act 44 funding commitment drops to \$50 million annually starting in fiscal 2023, the Commission is required to provide 100% of this funding on a pay-as-you-go basis. As a result, debt issued to finance the Commission's Act 44 commitments will end in fiscal 2022.

Since the Commission's payment obligations are only devoted to transit and other non-highway purposes, PTC will solely use its Subordinate Revenue Bonds to finance its Act 44 obligations and no longer utilize its Subordinate Special Revenue Bonds. Transit and other non-highway capital payment obligations are assumed to have a shorter useful life than highway and bridge assets. As a result a 30 year term is assumed for all future Subordinate Revenue Bonds. The amount of debt issued will be reduced by the pay-as-you-go requirements of Act 89 as well as any additional available cash flow to fund the Commission's Act 44 commitments.



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 transit capital 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.

Act 44, Act 89 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 through fiscal year 2022. The Subordinate Revenue Bonds are secured by payments from the General Reserve Fund, known as Commission Payments, and are used to finance transit and multi-modal obligations.

### **III. Fiscal 2014 Activities**

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## Fiscal 2014 Activities

PTC continued to meet its funding commitments in full and on time during the seventh 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 largely remain favorable. 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 Senior, 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.

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### Turnpike Operations and Capital Program

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PTC toll revenues after commercial discounts and electronic toll collection adjustments are estimated to have grown 6.0% in fiscal 2014, to \$860.3 million. The average toll paid per transaction equaled an estimated \$4.53. Fiscal 2014 toll revenues are projected to be in line with the Amended Financial Plan. Total transactions for the entire fiscal year are estimated to have increased by 1.1% to 189.9 million. Total Turnpike revenues, which include toll revenues and other income derived from service plazas and transponder sales, grew an estimated 5.7% to \$879.1 million – 0.3% higher than levels assumed in the Amended Financial Plan, while interest income, which varies from year-to-year, declined 24.8% compared to fiscal 2013.



**Exhibit 2**  
**Fiscal 2014 Estimated Turnpike Results Compared to Last Year's Financial Plan**  
(\$000) Fiscal Year End 5/31

	2014 Financial Plan				
	2013	Current Estimate	Prior Plan	% Diff 2013	% Diff Prior Plan
<b><u>Turnpike Operating Income</u></b>					
Adjusted Gross Toll Revenues	811,542	860,325	860,325	6.0%	0.0%
Gross Non-Toll Revenues	20,094	18,750	16,283	-6.7%	15.2%
Gross Operating Revenues	831,636	879,075	876,608	5.7%	0.3%
Operating Expense	323,097	337,467	337,467	4.4%	0.0%
Interest Income	13,490	10,143	5,553	-24.8%	82.7%
<b>Net Turnpike Revenues</b>	<b>522,029</b>	<b>551,751</b>	<b>544,694</b>	<b>5.7%</b>	<b>1.3%</b>
Turnpike Senior Revenue Bonds Debt Service	142,552	186,863	189,188	31.1%	-1.2%
<b>Net Income Before Capital Expense and General Reserve</b>	<b>379,477</b>	<b>364,888</b>	<b>355,506</b>	<b>-3.8%</b>	<b>2.6%</b>
<b><u>Turnpike Working Capital</u></b>					
Cash Beginning Balance	197,421	172,041	172,041	-12.9%	0.0%
Construction Fund Beginning Balance	104,927	114,247	135,095	8.9%	-15.4%
Newly Sized Senior Bond Proceeds	390,003	460,300	453,398		-1.5%
Previously Unused Senior Bond Proceeds Used	104,927	114,247	135,095	8.9%	-15.4%
Current Senior Bond Proceeds Used	275,756	359,558	453,398		-20.7%
Construction Fund Ending Balance	114,247	100,742	-	-11.8%	
Net Income	379,477	364,888	355,506	-3.8%	2.6%
Capital Expenditure	471,747	473,805	507,614	0.4%	-6.7%
PAYGO	194,551	94,761	101,523	-51.3%	-6.7%
Federal Fund Reim.	12,200	8,000	8,000	-34.4%	0.0%
Capital Expenditure Reconciliation	639	(62,162)	-	0.0%	
Liquidity Requirement	83,164	87,907	87,661	5.7%	0.3%
Liquidity Requirement Cashflow Set-aside	2,775	4,744	4,497	71.0%	5.5%
Tax-Exempt Subordinate Bonds Debt Service	143,639	184,054	184,754	28.1%	-0.4%
Taxable Subordinate Bonds Debt Service	12,428	12,421	12,421	-0.1%	0.0%
Subordinate Special Revenue Bonds Debt Service	20,305	29,632	29,727	45.9%	-0.3%
Subordinate and Sub Special Rev DSRF Earnings	6,002	4,937	4,742	-17.7%	4.1%
<b>Net Funds Remaining Before Act 44 Payments</b>	<b>222,041</b>	<b>162,092</b>	<b>207,367</b>	<b>-27.0%</b>	<b>-21.8%</b>
<b><u>Debt Service Coverage Ratios</u></b>					
<b><u>Senior Revenue Bonds</u></b>					
Pledged Revenues	522,029	551,751	544,694		
Debt Service	142,552	186,863	189,188		
Coverage	3.66 x	2.95 x	2.88 x		
<b><u>Subordinate Revenue Bonds</u></b>					
Pledged Revenues	527,833	556,519	548,874		
Debt Service	298,619	383,338	386,363		
Coverage	1.77 x	1.45 x	1.42 x		
<b><u>Subordinate Special Revenue Bonds</u></b>					
Pledged Revenues	528,031	556,688	549,436		
Debt Service	318,924	412,970	416,090		
Coverage	1.66 x	1.35 x	1.32 x		

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





Projected operating expenses increased an estimated 4.4% over fiscal 2013 and are in line with the Commission's budget due to a continuation of cost containment measures, offsetting higher snow removal and winter road treatment costs. Operating expense growth exceeded the Commission's 4.0% annual goal because of additional expenses SERS contributions. Debt service coverage ratios were slightly higher than the Amended Financial Plan reflecting a revision in the subsidy reduction for Senior Build America Bonds based on actual receipts from the United States Department of Treasury.

Turnpike capital outlays are estimated at \$473.8 million for fiscal 2014, which is 6.7% lower than the Amended Financial Plan. This difference is primarily attributable effects of the severe winter weather season and slower than expected development of certain projects. 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 105 miles of the Mainline with most of these sections widened to six lanes. Approximately another 10 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 64 bridges identified as structurally deficient 24 are currently being replaced or repaired and 37 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.

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## Act 44 Activities

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Exhibit 3 shows that the Commission met its fiscal 2014 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 transit. PTC made quarterly payments of \$112.5 million on July 30, 2013, October 30, 2013, January 31, 2014 and April 29, 2014.

After meeting Turnpike and Act 44 obligations, the Commission's General Reserve Fund ending balance is estimated to be \$200.0 million. The General Reserve Fund balance for fiscal 2014 is 18.4% lower than the amount projected in last year's plan due, in part, to the use of \$50 million for Act 44 payments and 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 2014 Estimated Act 44 Payments Compared to Last Year's Financial Plan**  
 (\$000) Fiscal Year End 5/31

	2014 Financial Plan				
	2013	Current Estimate	Prior Plan	% Diff 2013	% Diff Prior Plan
<b>Act 44 Payment Funds</b>					
Turnpike Net Income Before Act 44 Payments	222,041	162,092	207,367	-27.0%	-21.8%
Tax-Exempt Subordinate Bond Proceeds	200,000	200,000	200,000	0.0%	0.0%
Taxable Subordinate Bond Proceeds	-	-	-		
Subordinate Special Revenue Bond Proceeds	200,000	200,000	200,000	0.0%	0.0%
<b>Act 44 Payments</b>					
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 Capital Payments	-	41,000	41,000		0.0%
Transit Capital Total Sources	-	41,000	41,000		0.0%
Turnpike Cash	-	-	-		
Tax-Exempt Subordinate Bond Proceeds	-	41,000	41,000		0.0%
Transit Operations Payments	250,000	209,000	209,000	-16.4%	0.0%
Transit Operations Total Sources	250,000	209,000	209,000	-16.4%	0.0%
Turnpike Cash	50,000	50,000	50,000		0.0%
Tax-Exempt Subordinate Bond Proceeds	200,000	159,000	159,000	-20.5%	0.0%
Taxable Subordinate Bond Proceeds	-	-	-		
<b>Total Act 44 Payments</b>	450,000	450,000	450,000	0.0%	0.0%
<b>Total Act 44 Sources</b>	450,000	450,000	450,000	0.0%	0.0%
Remaining Turnpike Cash	172,041	112,092	157,367	-34.8%	-28.8%
General Reserve Fund/Liquidity Requirement	255,205	200,000	245,028	-21.6%	-18.4%

## Planning Activities

CDM Smith, PTC's traffic and revenue consultant, updated its traffic and revenue forecast for the Turnpike in February 2014 to account for the annual toll increases implemented between 2009 and 2014, 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 \$6.7 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 \$4.8 billion currently outstanding. As noted earlier, Act 89 provides the Commission with significant long term debt relief, but still requires substantial funding commitments through fiscal 2022 that will largely be financed with Subordinate Revenue Bonds. The PTC also has a well-established track record of executing large capital initiatives while maintaining financial flexibility.

Moody's, Standard and Poor's and Fitch affirmed their 'A1', 'A+' and 'A+' ratings on the Senior Revenue Bonds and 'A3', 'A-' 'A-' ratings on the Subordinate Revenue Bonds in fiscal 2014 all with a Stable Outlook. 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. However, Act 89 is expected to provide long term debt relief to the Commission.

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 maintains a Stable Outlook on the bonds, while Fitch has a Negative Outlook reflecting each rating agency's 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 seventh 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**

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## 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.

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### Covenants with Bondholders

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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, but benefit from a back-up pledge of the Commonwealth Motor License Fund. 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 the maximum annual debt service coverage was at least 1.75x for prior fiscal year net revenues 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 31<sup>st</sup> 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. The Commission adopted its fiscal year 2015 operating and capital budgets on May 20, 2014 and the estimates contained in the adopted budgets are included within the assumptions made in this financial plan.

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## **Financial Management Policies**

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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.

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 policies 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 of 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 2015 Financial Plan**

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## Fiscal 2015 Financial Plan

PTC's fiscal 2015 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 2015 Financial Plan**  
**(\$000) Fiscal Year End 5/31**

	2014	2015
<b><u>Turnpike Operating Income</u></b>		
Adjusted Gross Toll Revenues	860,325	912,157
Gross Non-Toll Revenues	18,750	16,446
Gross Operating Revenues	879,075	928,603
Operating Expense	337,467	349,500
Interest Income	10,143	6,047
<b>Net Turnpike Revenues</b>	<b>551,751</b>	<b>585,150</b>
Turnpike Senior Revenue Bonds Debt Service	186,863	199,855
<b>Net Income Before Capital Expense and General Reserve</b>	<b>364,888</b>	<b>385,295</b>
<b><u>Turnpike Working Capital</u></b>		
Cash Beginning Balance	172,041	112,092
Construction Fund Beginning Balance	114,247	100,742
Newly Sized Senior Bond Proceeds	460,300	445,398
Previously Unused Senior Bond Proceeds Used	114,247	100,742
Current Senior Bond Proceeds Used	359,558	445,398
Construction Fund Ending Balance	100,742	0
Net Earnings	364,888	385,295
Capital Expenditure	473,805	682,675
PAYGO	94,761	136,535
Federal Fund Reim.	8,000	52,000
Capital Expenditure Reconciliation	(62,162)	-
Liquidity Requirement	87,907	92,860
Liquidity Requirement Cashflow Set-aside	4,744	4,953
Tax-Exempt Subordinate Bonds Debt Service	184,054	200,363
Taxable Subordinate Bonds Debt Service	12,421	12,410
Subordinate Special Revenue Bonds Debt Service	29,632	36,027
Subordinate and Sub Special Rev DSRF Earnings	6,728	4,742
<b>Net Funds Remaining Before Act 44 Payments</b>	<b>162,092</b>	<b>163,843</b>
<b><u>Debt Service Coverage Ratios</u></b>		
<b><u>Senior Revenue Bonds</u></b>		
Pledged Revenues	551,751	585,150
Debt Service	186,863	199,855
Coverage	2.95 x	2.93 x
<b><u>Subordinate Revenue Bonds</u></b>		
Pledged Revenues	556,519	589,330
Debt Service	383,338	412,627
Coverage	1.45 x	1.43 x
<b><u>Subordinate Special Revenue Bonds</u></b>		
Pledged Revenues	556,688	589,892
Debt Service	412,970	448,654
Coverage	1.35 x	1.31 x

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

**Exhibit 5**  
**Projected Fiscal 2015 Financial Plan**  
(\$000) Fiscal Year End 5/31

	2014	2015
<b>Act 44 Payment Funds</b>		
Turnpike Net Income Before Act 44 Payments	162,092	163,843
Tax-Exempt Subordinate Bond Proceeds	200,000	420,000
Taxable Subordinate Bond Proceeds	-	-
Subordinate Special Revenue Bond Proceeds	200,000	-
<b>Act 44 Payments</b>		
Roads & Bridges Payments	200,000	-
Roads & Bridges Total Sources	200,000	-
Tax-Exempt Subordinate Bond Proceeds	-	-
Turnpike Cash	-	-
Subordinate Special Revenue Bond Proceeds	200,000	-
Transit Capital Payments	41,000	263,000
Transit Capital Total Sources	41,000	263,000
Turnpike Cash	-	30,000
Tax-Exempt Subordinate Bond Proceeds	41,000	233,000
Transit Operations Payments	209,000	187,000
Transit Operations Total Sources	209,000	187,000
Turnpike Cash	50,000	-
Tax-Exempt Subordinate Bond Proceeds	159,000	187,000
Taxable Subordinate Bond Proceeds	-	-
<b>Total Act 44 Payments</b>	450,000	450,000
<b>Total Act 44 Sources</b>	450,000	450,000
Remaining Turnpike Cash	112,092	133,843
General Reserve Fund/Liquidity Requirement	200,000	226,703

The fiscal 2015 financial plan was developed based on the following assumptions.

## Estimated Toll Rates, Tolls and Other Revenues

Fiscal 2015 toll revenues reflect the full year impact of the toll increase implemented on January 2014 and a partial year impact of a planned adjustment yielding an average toll rate increase of 5% scheduled for January 2015. Toll revenues are projected to increase by 6.0% to \$912.2 million in fiscal 2015, consistent with the Commission's February 2014 traffic and revenue forecast. Other PTC revenues, primarily consisting of concession income and transponder fees, are projected to decline by 12.3% to \$16.4 million. As a result, total operating revenues are projected to grow by 5.6% in fiscal 2015 to \$928.6 million. Interest income is projected to be \$6.0 million. Reflecting CDM Smith's assumptions, fiscal 2015 toll revenues are 0.6% higher than the Amended Financial Plan.

## Operating, Capital and Other Expenditures

PTC has budgeted operating and maintenance expenses of \$349.5 million for fiscal 2015, 0.4% below levels assumed in the Amended Financial Plan. In line with the Commission's expense growth goal,



operating expenses are budgeted to increase by 3.6% compared to fiscal 2014. Capital expenditures are budgeted to be \$682.7 million – 3.9% lower than last year’s amended financial plan.

Senior Revenue Bond debt service payments on the Commission’s bonds for fiscal 2015 are projected to be \$199.9 million. Combined Subordinate Revenue Bond and Subordinate Special Revenue Bond debt service is estimated to equal \$248.8 million. Compared to last year’s amended financial plan total debt service costs are expected to be 2.9% lower.

It should be mentioned that budgeted debt service does not include payments on \$749.9 million in separately secured Oil Company Franchise Tax Revenue Bonds and \$416.9 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 2015. Pursuant to Act 44, Act 89 and the Funding Agreement, PTC will provide a total of \$450 million in funding, consisting of \$263 million for transit and multi-modal capital needs and \$187 million for transit operating support.

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## Planned Borrowings

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To meet its fiscal 2015 capital expenditures, PTC expects to utilize and previously issued and unused Senior Revenue Bond proceeds as well as to issue \$501.0 million in Senior Revenue Bonds. Act 44 obligations are expected to be funded by \$30 million in available cash from the General Reserve Fund and the issuance of \$338.5 million in Subordinate Revenue Bonds for the October 2014, January 2015 and April 2015 Act 44 payments. The July 2014 payment will be funded with a portion of the proceeds of the \$148.3 million Subordinate Revenue Bonds Series A of 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. 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 115 basis points for current interest bonds and 190 basis points for capital appreciation bonds.



Based on the above assumptions for revenues, operations and maintenance expense and debt service, fiscal 2015 debt service coverage of the Commission's Senior Revenue Bonds is expected to be 2.93x, 1.43x on the Subordinate Revenue Bonds and 1.31x on the Subordinate Special Revenue bonds.

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## **General Reserve Fund Requirements and Balance**

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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 \$30 million in available funds towards its Act 44 payments, PTC expects to exceed this requirement with an ending balance of \$226.7 million, which includes an \$92.9 million liquidity level set aside in the General Reserve Fund.

## **VI. Long-Range Financial Plan**

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## Long-Range Financial Plan

In addition to the fiscal 2015 financial plan, PTC has prepared a multi-year plan to meet Act 44 and Amended 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 through fiscal 2022 and \$50 million annually thereafter.
- The mix of debt and pay-as-you-go financing to meet Turnpike and Act 44 needs and maintenance of required liquidity levels.

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## Toll Revenues

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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.

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## Operations and Maintenance Expenses

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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.

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## Capital Expenses

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The financial plan assumes the completion of the Turnpike's planned \$6.7 billion ten year capital plan by fiscal 2024. 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 2025 Turnpike capital expenditures equal \$671.1 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.

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## Act 44 Payment Obligations

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PTC will meet its Act 44 payment obligations of \$450 million annually through fiscal 2022 and \$50 million annually thereafter.

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## Financing Guidelines

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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 as a result of declining 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 are used to fund at least \$30 million in transit capital obligations through fiscal 2022 and all Act 44 obligations thereafter.
- 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).
- 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 115 basis points is assumed for current interest bonds and 190 basis points for capital appreciation bonds. The Subordinate Revenue Bonds are assumed to be uninsured.
  - 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.



- 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.
- Subordinate Revenue Bonds have a 30 year amortization. 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.
- Debt service coverage provided by net revenues is targeted to be at least 1.20x for combined Senior Revenue Bond, Subordinate Revenue Bond and outstanding Subordinate Special Revenue Bond debt service.

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## Financial Plan Results

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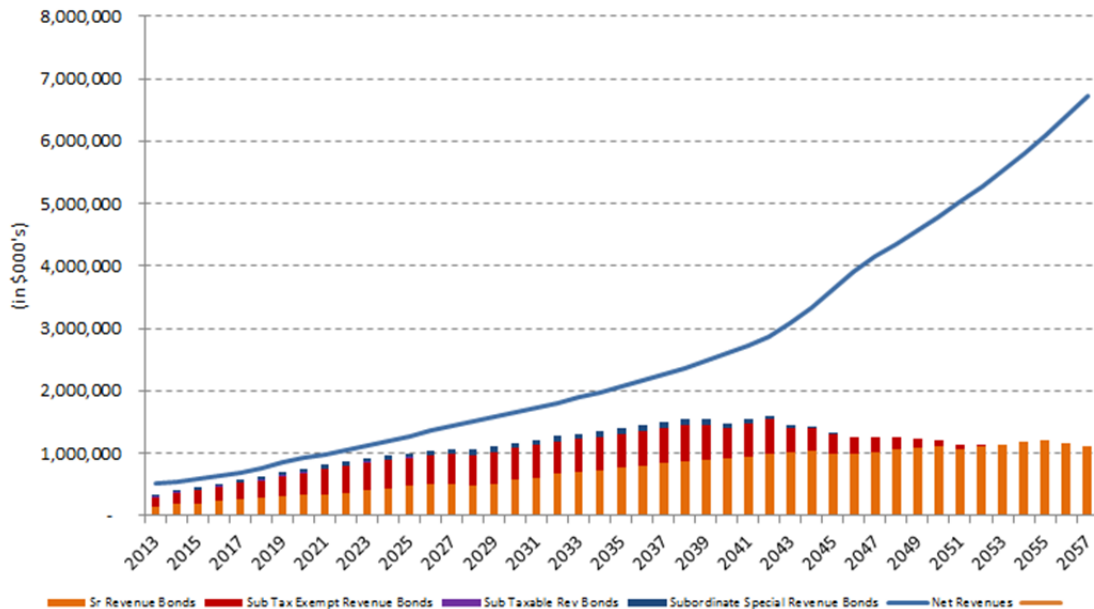
During the course of the financial plan period covering fiscal 2015-2057, the Commission is projected to generate sufficient resources to operate and maintain the Turnpike, provide for its capital investment needs, meet debt service requirements, fund required Act 44 obligations and maintain internal 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 2015 and 2024, PTC is projected to issue \$9.5 billion in debt. This year's financial plan includes \$5.9 billion in Senior Revenue Bonds, \$3.6 billion in Subordinate Revenue Bonds.

For the entire 2015-2057 year financial plan period, the issuance of debt secured by Turnpike toll revenues totals \$18.0 billion, consisting of \$14.4 billion in Senior Revenue Bonds for Turnpike capital needs and \$3.6 billion in Subordinate Revenue Bonds to meet Act 44 obligations.

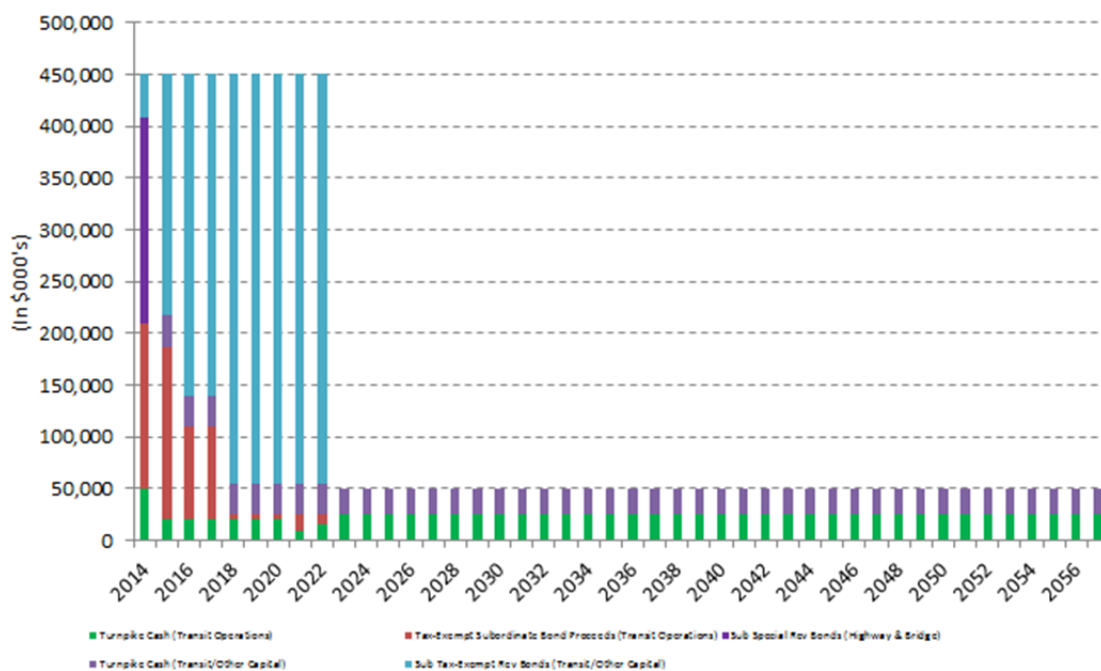
Exhibit 6 presents Turnpike net revenues relative to annual debt service obligations. Although the PTC is projected to be more highly leveraged, projected toll revenues are estimated to provide sufficient debt service coverage. Turnpike Senior Revenue Bond debt service coverage is at least 2.63x and averages 3.13x, which should enable the Turnpike to retain its current mid-investment grade bond ratings. Subordinate Revenue Bond debt service coverage is lower, but at least 1.30x and averages 2.17x. Subordinate Special Revenue Bond debt service coverage is no less than 1.20x and averages 2.11x.

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



The financial plan is structured to maximize the use of Turnpike cash for its Act 44 transit obligations. Between fiscal 2014 and 2022 \$30 million-\$50 million in annual Act 44 obligations is projected to be funded with Turnpike cash and the balance of \$400 million to \$420 million will be financed with Subordinate Revenue Bonds. Beginning in fiscal 2023 all Act 44 payments will be cash funded (See Exhibit 7).

**Exhibit 7**  
**Long Range Financial Plan**  
**Sources and Uses of Funds for Act 44 Obligations**  
**(\$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-two 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 2015 Financial Planning Activities**

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## Fiscal 2014 Financial Planning Activities

While the Commission continues to meet its Turnpike and Act 44 financial obligations over the course of fiscal 2015, 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.

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### Traffic and Revenue Forecasts

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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.

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### Operations and Maintenance Cost Strategies

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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.

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### Capital Planning

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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.

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### Financing Initiatives

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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 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

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## Appendices

- A. Financial Plan Cash Flows
- B. Financial Management Policies

## **A. Financial Plan Cash Flows**

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**Pennsylvania Turnpike Commission**

**Act 44 Financial Plan**

**(\$000) Fiscal Year End 5/31**

	2013	2014	2015	2016	2017	2018	2019	2020
<b><u>Mainline Operating Income</u></b>								
Adjusted Gross Toll Revenues	811,542	860,325	912,157	973,918	1,042,577	1,131,656	1,235,421	1,318,947
Gross Non-Toll Revenues	20,094	18,750	16,446	16,610	16,776	16,944	17,113	17,284
Gross Operating Revenues	831,636	879,075	928,603	990,528	1,059,353	1,148,600	1,252,534	1,336,231
Operating Expense	323,097	337,467	349,500	363,480	378,019	393,140	408,866	425,221
Interest Income	13,490	10,143	6,047	5,268	5,001	4,750	4,779	5,080
<b>Net Turnpike Revenues Before Debt Service</b>	<b>522,029</b>	<b>551,751</b>	<b>585,150</b>	<b>632,316</b>	<b>686,335</b>	<b>760,210</b>	<b>848,447</b>	<b>916,090</b>
<b>Senior Turnpike Revenue Bond Debt Service</b>	<b>142,552</b>	<b>186,863</b>	<b>199,855</b>	<b>235,785</b>	<b>257,906</b>	<b>279,267</b>	<b>300,944</b>	<b>323,247</b>
<b>Net Income Before Capital Expense and General Reserve</b>	<b>379,477</b>	<b>364,888</b>	<b>385,295</b>	<b>396,531</b>	<b>428,429</b>	<b>480,942</b>	<b>547,503</b>	<b>592,843</b>
<b>Turnpike Working Capital</b>								
Cash Beginning Balance	197,421	172,041	112,092	133,843	100,961	68,963	62,944	82,656
Construction Fund Beginning Balance	104,927	114,247	100,742	0	0	0	0	0
Newly Sized Senior Bond Proceeds	390,003	460,300	445,398	587,334	559,924	531,095	518,356	527,425
Previously Unused Senior Bond Proceeds Used	104,927	114,247	100,742	-	-	-	-	-
Current Senior Bond Proceeds Used	275,756	359,558	445,398	587,334	559,924	531,095	518,356	527,425
Construction Fund Ending Balance	114,247	100,742	0	0	0	0	0	0
Net Income	379,477	364,888	385,295	396,531	428,429	480,942	547,503	592,843
Capital Expenditure	471,747	473,805	682,675	734,168	699,905	663,869	647,945	659,282
PAYGO	194,551	94,761	136,535	146,834	139,981	132,774	129,589	131,856
Federal Fund Reim.	12,200	8,000	52,000	20,000	28,850	30,850	40,000	18,800
Capital Expenditure Reconciliation	639	(62,162)	-	-	-	-	-	-
Liquidity Requirement	83,164	87,907	92,860	99,053	105,935	114,860	125,253	133,623
Liquidity Requirement Cashflow Set-aside	2,775	4,744	4,953	6,192	6,883	8,925	10,393	8,370
<b>Subordinate DSRF Interest Earnings</b>	<b>5,804</b>	<b>4,768</b>	<b>4,180</b>	<b>4,180</b>	<b>4,180</b>	<b>4,180</b>	<b>4,180</b>	<b>4,180</b>
<b>Subordinate Special Revenue Bonds DSRF Interest Earnings</b>	<b>198</b>	<b>169</b>	<b>562</b>	<b>562</b>	<b>562</b>	<b>562</b>	<b>562</b>	<b>562</b>
<b>General Reserve Fund Before Subordinate Debt</b>	<b>398,413</b>	<b>388,199</b>	<b>412,642</b>	<b>402,090</b>	<b>416,118</b>	<b>443,799</b>	<b>515,207</b>	<b>558,815</b>
<b>Subordinate and Sub. Special Revenue Bonds Debt Service</b>	<b>176,372</b>	<b>226,107</b>	<b>248,799</b>	<b>271,129</b>	<b>317,155</b>	<b>340,855</b>	<b>392,551</b>	<b>419,268</b>
<b>Tax-Exempt Subordinate Bonds Debt Service</b>	<b>143,639</b>	<b>184,054</b>	<b>200,363</b>	<b>222,206</b>	<b>259,574</b>	<b>282,714</b>	<b>327,497</b>	<b>352,241</b>
<b>Taxable Subordinate Bonds Debt Service</b>	<b>12,428</b>	<b>12,421</b>	<b>12,410</b>	<b>12,399</b>	<b>12,387</b>	<b>12,381</b>	<b>18,716</b>	<b>18,679</b>
<b>Subordinate Special Revenue Bonds Debt Service</b>	<b>20,305</b>	<b>29,632</b>	<b>36,027</b>	<b>36,525</b>	<b>45,194</b>	<b>45,760</b>	<b>46,338</b>	<b>48,348</b>
<b>Net Funds Remaining Before Act 44 Payments</b>	<b>222,041</b>	<b>162,092</b>	<b>163,843</b>	<b>130,961</b>	<b>98,963</b>	<b>102,944</b>	<b>122,656</b>	<b>139,547</b>

**Pennsylvania Turnpike Commission**

**Act 44 Financial Plan**

**(\$000) Fiscal Year End 5/31**

	2013	2014	2015	2016	2017	2018	2019	2020
<b>Act 44 Payment Sources</b>								
Turnpike Cash	50,000	50,000	30,000	30,000	30,000	40,000	40,000	40,000
Tax-Exempt Subordinate Bond Proceeds	200,000	200,000	420,000	420,000	420,000	410,000	410,000	410,000
Taxable Subordinate Bond Proceeds	-	-	-	-	-	-	-	-
Subordinate Special Revenue Bond Proceeds	200,000	200,000	-	-	-	-	-	-
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 Capital/Other Payments	-	41,000	263,000	340,000	340,000	425,000	425,000	425,000
Transit Capital/Other Total Sources	-	41,000	263,000	340,000	340,000	425,000	425,000	425,000
Turnpike Cash	-	-	30,000	30,000	30,000	40,000	40,000	40,000
Tax-Exempt Subordinate Bond Proceeds	-	41,000	233,000	310,000	310,000	385,000	385,000	385,000
Transit Operations Payments	250,000	209,000	187,000	110,000	110,000	25,000	25,000	25,000
Transit Operations Total Sources	250,000	209,000	187,000	110,000	110,000	25,000	25,000	25,000
Turnpike Cash	50,000	50,000	-	-	-	-	-	-
Tax-Exempt Subordinate Bond Proceeds	200,000	159,000	187,000	110,000	110,000	25,000	25,000	25,000
Taxable Subordinate Bond Proceeds	-	-	-	-	-	-	-	-
<b>Total Act 44 Payments</b>	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000
<b>Total Act 44 Sources</b>	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000
Remaining Turnpike Cash	172,041	112,092	133,843	100,961	68,963	62,944	82,656	99,547
Turnpike General Reserve	255,205	200,000	226,703	200,014	174,899	177,804	207,909	233,170
<b>Coverage Calculations</b>								
<b>Mainline Debt Service Coverage</b>								
<b>Senior Lien</b>								
Pledged Revenues	522,029	551,751	585,150	632,316	686,335	760,210	848,447	916,090
Debt Service	(142,552)	(186,863)	(199,855)	(235,785)	(257,906)	(279,267)	(300,944)	(323,247)
Coverage	3.66 x	2.95 x	2.93 x	2.68 x	2.66 x	2.72 x	2.82 x	2.83 x
<b>Subordinate Lien</b>								
Pledged Revenues	527,833	556,519	589,330	636,496	690,515	764,390	852,628	920,270
Debt Service	(298,619)	(383,338)	(412,627)	(470,389)	(529,867)	(574,362)	(647,157)	(694,166)
Coverage	1.77 x	1.45 x	1.43 x	1.35 x	1.30 x	1.33 x	1.32 x	1.33 x
<b>Subordinate Special Revenue Lien</b>								
Pledged Revenues	528,031	556,688	589,892	637,058	691,077	764,952	853,190	920,832
Debt Service	(318,924)	(412,970)	(448,654)	(506,914)	(575,061)	(620,122)	(693,495)	(742,515)
Coverage	1.66 x	1.35 x	1.31 x	1.26 x	1.20 x	1.23 x	1.23 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
<b>Mainline Operating Income</b>										
Adjusted Gross Toll Revenues	1,403,216	1,484,831	1,571,205	1,662,585	1,759,295	1,858,131	1,953,492	2,044,331	2,133,493	2,226,553
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	1,420,673	1,502,462	1,589,012	1,680,571	1,777,460	1,876,478	1,972,023	2,063,047	2,152,396	2,245,645
Operating Expense	442,230	461,847	480,321	499,534	519,515	540,296	561,908	584,384	607,760	632,070
Interest Income	5,333	5,313	5,436	5,559	6,107	7,016	6,873	7,775	9,338	11,078
<b>Net Turnpike Revenues Before Debt Service</b>	983,776	1,045,928	1,114,127	1,186,596	1,264,052	1,343,198	1,416,988	1,486,438	1,553,975	1,624,653
<b>Senior Turnpike Revenue Bond Debt Service</b>	346,324	370,808	415,715	441,710	469,997	504,154	495,595	482,046	514,304	574,744
<b>Net Income Before Capital Expense and General Reserve</b>	637,452	675,120	698,412	744,886	794,055	839,044	921,393	1,004,392	1,039,671	1,049,909
<b>Turnpike Working Capital</b>										
Cash Beginning Balance	99,547	89,136	93,233	96,931	143,003	224,303	268,011	348,703	495,911	660,922
Construction Fund Beginning Balance	0	0	0	0	0	0	0	0	0	0
Newly Sized Senior Bond Proceeds	525,413	526,419	527,755	516,251	536,901	488,580	508,123	528,448	549,586	571,570
Previously Unused Senior Bond Proceeds Used	-	-	-	-	-	-	-	-	-	-
Current Senior Bond Proceeds Used	525,413	526,419	527,755	516,251	536,901	488,580	508,123	528,448	549,586	571,570
Construction Fund Ending Balance	0	0	0	0	0	0	0	0	0	0
Net Income	637,452	675,120	698,412	744,886	794,055	839,044	921,393	1,004,392	1,039,671	1,049,909
Capital Expenditure	656,766	658,023	659,693	645,314	671,127	697,972	725,890	754,926	785,123	816,528
PAYGO	131,353	131,605	131,939	129,063	134,225	209,391	217,767	226,478	235,537	244,958
Federal Fund Reim.	-	-	-	-	-	-	-	-	-	-
Capital Expenditure Reconciliation	-	-	-	-	-	-	-	-	-	-
Liquidity Requirement	142,067	150,246	158,901	168,057	177,746	187,648	197,202	206,305	215,240	224,565
Liquidity Requirement Cashflow Set-aside	8,444	8,179	8,655	9,156	9,689	9,902	9,554	9,102	8,935	9,325
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
<b>General Reserve Fund Before Subordinate Debt</b>	601,944	629,215	655,793	708,341	797,886	848,796	966,824	1,122,252	1,295,843	1,461,227
<b>Subordinate and Sub. Special Revenue Bonds Debt Service</b>	462,808	485,982	508,862	515,338	523,583	530,785	568,121	576,341	584,921	589,832
<b>Tax-Exempt Subordinate Bonds Debt Service</b>	390,386	412,898	429,102	441,201	448,408	455,357	486,258	492,954	499,908	506,905
<b>Taxable Subordinate Bonds Debt Service</b>	18,671	18,661	17,729	11,444	11,452	11,447	-	-	-	-
<b>Subordinate Special Revenue Bonds Debt Service</b>	53,750	54,424	62,031	62,692	63,724	63,981	81,863	83,387	85,013	82,927
<b>Net Funds Remaining Before Act 44 Payments</b>	139,136	143,233	146,931	193,003	274,303	318,011	398,703	545,911	710,922	871,396

**Pennsylvania Turnpike Commission**

**Act 44 Financial Plan**

**(\$000) Fiscal Year End 5/31**

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
<b>Act 44 Payment Sources</b>										
Turnpike Cash	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Tax-Exempt Subordinate Bond Proceeds	400,000	400,000	-	-	-	-	-	-	-	-
Taxable Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Subordinate Special Revenue Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Roads & Bridges Payments	-	-	-	-	-	-	-	-	-	-
Roads & Bridges Total Sources	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Turnpike Cash	-	-	-	-	-	-	-	-	-	-
Subordinate Special Revenue Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Transit Capital/Other Payments	425,000	425,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Transit Capital/Other Total Sources	425,000	425,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Turnpike Cash	50,000	50,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Tax-Exempt Subordinate Bond Proceeds	375,000	375,000	-	-	-	-	-	-	-	-
Transit Operations Payments	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Transit Operations Total Sources	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Turnpike Cash	-	-	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Tax-Exempt Subordinate Bond Proceeds	25,000	25,000	-	-	-	-	-	-	-	-
Taxable Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
<b>Total Act 44 Payments</b>	450,000	450,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
<b>Total Act 44 Sources</b>	450,000	450,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Remaining Turnpike Cash	89,136	93,233	96,931	143,003	224,303	268,011	348,703	495,911	660,922	821,396
Turnpike General Reserve	231,203	243,479	255,832	311,060	402,049	455,659	545,905	702,216	876,162	1,045,960
<b>Coverage Calculations</b>										
<b>Mainline Debt Service Coverage</b>										
<b>Senior Lien</b>										
Pledged Revenues	983,776	1,045,928	1,114,127	1,186,596	1,264,052	1,343,198	1,416,988	1,486,438	1,553,975	1,624,653
Debt Service	(346,324)	(370,808)	(415,715)	(441,710)	(469,997)	(504,154)	(495,595)	(482,046)	(514,304)	(574,744)
Coverage	2.84 x	2.82 x	2.68 x	2.69 x	2.69 x	2.66 x	2.86 x	3.08 x	3.02 x	2.83 x
<b>Subordinate Lien</b>										
Pledged Revenues	987,956	1,050,108	1,118,307	1,190,776	1,268,232	1,347,379	1,421,168	1,490,613	1,558,146	1,628,771
Debt Service	(755,381)	(802,366)	(862,546)	(894,355)	(929,856)	(970,958)	(981,853)	(975,000)	(1,014,212)	(1,081,649)
Coverage	1.31 x	1.31 x	1.30 x	1.33 x	1.36 x	1.39 x	1.45 x	1.53 x	1.54 x	1.51 x
<b>Subordinate Special Revenue Lien</b>										
Pledged Revenues	988,518	1,050,670	1,118,869	1,191,338	1,268,794	1,347,940	1,421,730	1,491,175	1,558,708	1,629,333
Debt Service	(809,132)	(856,790)	(924,577)	(957,048)	(993,580)	(1,034,939)	(1,063,716)	(1,058,387)	(1,099,225)	(1,164,576)
Coverage	1.22 x	1.23 x	1.21 x	1.24 x	1.28 x	1.30 x	1.34 x	1.41 x	1.42 x	1.40 x

**Pennsylvania Turnpike Commission**

**Act 44 Financial Plan**

**(\$000) Fiscal Year End 5/31**

	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
<b>Mainline Operating Income</b>										
Adjusted Gross Toll Revenues	2,324,328	2,427,341	2,535,518	2,649,379	2,768,329	2,892,446	3,021,998	3,157,429	3,298,943	3,446,835
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	2,343,611	2,446,817	2,555,189	2,669,247	2,788,396	2,912,713	3,042,467	3,178,104	3,319,825	3,467,925
Operating Expense	657,353	683,647	710,993	739,433	769,010	799,770	831,761	865,031	899,633	935,618
Interest Income	12,776	13,828	13,948	13,425	13,102	12,906	11,757	10,676	10,179	10,259
<b>Net Turnpike Revenues Before Debt Service</b>	1,699,034	1,776,999	1,858,144	1,943,239	2,032,488	2,125,849	2,222,463	2,323,748	2,430,371	2,542,566
<b>Senior Turnpike Revenue Bond Debt Service</b>	610,349	670,578	696,481	729,475	766,645	807,363	842,493	871,813	892,078	906,843
<b>Net Income Before Capital Expense and General Reserve</b>	1,088,685	1,106,420	1,161,663	1,213,763	1,265,843	1,318,486	1,379,970	1,451,935	1,538,293	1,635,722
<b>Turnpike Working Capital</b>										
Cash Beginning Balance	821,396	916,854	918,507	855,317	811,631	786,037	671,608	578,200	515,075	522,788
Construction Fund Beginning Balance	0	0	0	0	0	0	0	0	0	0
Newly Sized Senior Bond Proceeds	509,513	441,578	367,393	382,089	397,372	309,951	322,349	335,242	348,652	302,165
Previously Unused Senior Bond Proceeds Used	-	-	-	-	-	-	-	-	-	-
Current Senior Bond Proceeds Used	509,513	441,578	367,393	382,089	397,372	309,951	322,349	335,242	348,652	302,165
Construction Fund Ending Balance	0	0	0	0	0	0	0	0	0	0
Net Income	1,088,685	1,106,420	1,161,663	1,213,763	1,265,843	1,318,486	1,379,970	1,451,935	1,538,293	1,635,722
Capital Expenditure	849,189	883,157	918,483	955,222	993,431	1,033,168	1,074,495	1,117,475	1,162,174	1,208,661
PAYGO	339,676	441,578	551,090	573,133	596,059	723,218	752,147	782,232	813,522	906,496
Federal Fund Reim.	-	-	-	-	-	-	-	-	-	-
Capital Expenditure Reconciliation	-	-	-	-	-	-	-	-	-	-
Liquidity Requirement	234,361	244,682	255,519	266,925	278,840	291,271	304,247	317,810	331,982	346,792
Liquidity Requirement Cashflow Set-aside	9,797	10,321	10,837	11,406	11,915	12,432	12,975	13,564	14,172	14,810
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
<b>General Reserve Fund Before Subordinate Debt</b>	1,565,288	1,576,055	1,522,923	1,489,221	1,474,180	1,373,553	1,291,124	1,238,993	1,229,893	1,240,557
<b>Subordinate and Sub. Special Revenue Bonds Debt Service</b>	598,434	607,547	617,606	627,590	638,143	651,945	662,925	673,918	657,105	558,400
<b>Tax-Exempt Subordinate Bonds Debt Service</b>	514,005	521,261	528,723	536,447	544,620	553,046	561,736	570,360	568,811	495,291
<b>Taxable Subordinate Bonds Debt Service</b>	-	-	-	-	-	-	-	-	-	-
<b>Subordinate Special Revenue Bonds Debt Service</b>	84,429	86,287	88,883	91,143	93,523	98,899	101,188	103,559	88,293	63,109
<b>Net Funds Remaining Before Act 44 Payments</b>	966,854	968,507	905,317	861,631	836,037	721,608	628,200	565,075	572,788	682,157



**Pennsylvania Turnpike Commission**

**Act 44 Financial Plan**

**(\$000) Fiscal Year End 5/31**

	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
<b>Act 44 Payment Sources</b>										
Turnpike Cash	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Taxable Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Subordinate Special Revenue Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Roads & Bridges Payments	-	-	-	-	-	-	-	-	-	-
Roads & Bridges Total Sources	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Turnpike Cash	-	-	-	-	-	-	-	-	-	-
Subordinate Special Revenue Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Transit Capital/Other Payments	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Transit Capital/Other Total Sources	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Turnpike Cash	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Transit Operations Payments	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Transit Operations Total Sources	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Turnpike Cash	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Taxable Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
<b>Total Act 44 Payments</b>	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
<b>Total Act 44 Sources</b>	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Remaining Turnpike Cash	916,854	918,507	855,317	811,631	786,037	671,608	578,200	515,075	522,788	632,157
Turnpike General Reserve	1,151,215	1,163,189	1,110,836	1,078,556	1,064,877	962,880	882,446	832,885	854,771	978,949
<b>Coverage Calculations</b>										
<b>Mainline Debt Service Coverage</b>										
<b>Senior Lien</b>										
Pledged Revenues	1,699,034	1,776,999	1,858,144	1,943,239	2,032,488	2,125,849	2,222,463	2,323,748	2,430,371	2,542,566
Debt Service	(610,349)	(670,578)	(696,481)	(729,475)	(766,645)	(807,363)	(842,493)	(871,813)	(892,078)	(906,843)
Coverage	2.78 x	2.65 x	2.67 x	2.66 x	2.65 x	2.63 x	2.64 x	2.67 x	2.72 x	2.80 x
<b>Subordinate Lien</b>										
Pledged Revenues	1,703,152	1,781,116	1,862,262	1,947,356	2,036,606	2,129,966	2,226,569	2,327,841	2,434,028	2,545,546
Debt Service	(1,124,354)	(1,191,839)	(1,225,204)	(1,265,923)	(1,311,264)	(1,360,409)	(1,404,229)	(1,442,173)	(1,460,890)	(1,402,134)
Coverage	1.51 x	1.49 x	1.52 x	1.54 x	1.55 x	1.57 x	1.59 x	1.61 x	1.67 x	1.82 x
<b>Subordinate Special Revenue Lien</b>										
Pledged Revenues	1,703,714	1,781,678	1,862,824	1,947,918	2,037,167	2,130,528	2,227,131	2,328,403	2,434,590	2,545,918
Debt Service	(1,208,784)	(1,278,126)	(1,314,087)	(1,357,065)	(1,404,787)	(1,459,308)	(1,505,418)	(1,545,731)	(1,549,183)	(1,465,243)
Coverage	1.41 x	1.39 x	1.42 x	1.44 x	1.45 x	1.46 x	1.48 x	1.51 x	1.57 x	1.74 x

**Pennsylvania Turnpike Commission**

**Act 44 Financial Plan**

**(\$000) Fiscal Year End 5/31**

	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050
<b>Mainline Operating Income</b>										
Adjusted Gross Toll Revenues	3,601,889	3,768,775	3,939,373	4,117,896	4,304,649	4,500,038	4,704,515	4,918,548	5,142,604	5,377,194
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	3,623,190	3,790,289	3,961,102	4,139,843	4,326,815	4,522,425	4,727,126	4,941,386	5,165,670	5,400,490
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	11,500	12,750	14,461	14,809	16,414	20,148	25,280	31,534	38,967	47,657
<b>Net Turnpike Revenues Before Debt Service</b>	2,661,648	2,791,075	2,923,120	3,060,111	3,204,906	3,358,718	3,521,196	3,692,462	3,872,961	4,063,204
<b>Senior Turnpike Revenue Bond Debt Service</b>	935,516	981,432	1,020,873	1,036,507	994,604	992,446	1,021,105	1,050,782	1,081,516	1,112,218
<b>Net Income Before Capital Expense and General Reserve</b>	1,726,132	1,809,643	1,902,247	2,023,604	2,210,302	2,366,272	2,500,091	2,641,680	2,791,445	2,950,986
<b>Turnpike Working Capital</b>										
Cash Beginning Balance	632,157	741,558	895,928	939,353	1,081,972	1,436,694	1,930,268	2,535,282	3,257,155	4,103,707
Construction Fund Beginning Balance	0	0	0	0	0	0	0	0	0	0
Newly Sized Senior Bond Proceeds	314,252	326,822	-	-	-	-	-	-	-	-
Previously Unused Senior Bond Proceeds Used	-	-	-	-	-	-	-	-	-	-
Current Senior Bond Proceeds Used	314,252	326,822	-	-	-	-	-	-	-	-
Construction Fund Ending Balance	0	0	0	0	0	0	0	0	0	0
Net Income	1,726,132	1,809,643	1,902,247	2,023,604	2,210,302	2,366,272	2,500,091	2,641,680	2,791,445	2,950,986
Capital Expenditure	1,257,007	1,307,288	1,359,579	1,413,962	1,470,521	1,529,342	1,590,515	1,654,136	1,720,301	1,789,113
PAYGO	942,756	980,466	1,359,579	1,413,962	1,470,521	1,529,342	1,590,515	1,654,136	1,720,301	1,789,113
Federal Fund Reim.	-	-	-	-	-	-	-	-	-	-
Capital Expenditure Reconciliation	-	-	-	-	-	-	-	-	-	-
Liquidity Requirement	362,319	379,029	396,110	413,984	432,681	452,243	472,713	494,139	516,567	540,049
Liquidity Requirement Cashflow Set-aside	15,527	16,710	17,081	17,874	18,697	19,561	20,470	21,426	22,428	23,482
Subordinate DSRF Interest Earnings	2,981	2,793	270	101	-	-	-	-	-	-
Subordinate Special Revenue Bonds DSRF Interest Earnings	372	301	175	56	-	-	-	-	-	-
<b>General Reserve Fund Before Subordinate Debt</b>	1,403,359	1,557,120	1,421,959	1,531,278	1,803,056	2,254,063	2,819,374	3,501,400	4,305,870	5,242,097
<b>Subordinate and Sub. Special Revenue Bonds Debt Service</b>	611,801	611,192	432,606	399,305	316,363	273,794	234,092	194,245	152,163	105,270
<b>Tax-Exempt Subordinate Bonds Debt Service</b>	547,743	554,830	392,507	373,907	311,186	273,794	234,092	194,245	152,163	105,270
<b>Taxable Subordinate Bonds Debt Service</b>	-	-	-	-	-	-	-	-	-	-
<b>Subordinate Special Revenue Bonds Debt Service</b>	64,057	56,362	40,098	25,398	5,177	-	-	-	-	-
<b>Net Funds Remaining Before Act 44 Payments</b>	791,558	945,928	989,353	1,131,972	1,486,694	1,980,268	2,585,282	3,307,155	4,153,707	5,136,827

**Pennsylvania Turnpike Commission**

**Act 44 Financial Plan**

**(\$000) Fiscal Year End 5/31**

	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050
<b>Act 44 Payment Sources</b>										
Turnpike Cash	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Taxable Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Subordinate Special Revenue Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Roads & Bridges Payments	-	-	-	-	-	-	-	-	-	-
Roads & Bridges Total Sources	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Turnpike Cash	-	-	-	-	-	-	-	-	-	-
Subordinate Special Revenue Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Transit Capital/Other Payments	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Transit Capital/Other Total Sources	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Turnpike Cash	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Transit Operations Payments	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Transit Operations Total Sources	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Turnpike Cash	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Taxable Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
<b>Total Act 44 Payments</b>	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
<b>Total Act 44 Sources</b>	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Remaining Turnpike Cash	741,558	895,928	939,353	1,081,972	1,436,694	1,930,268	2,535,282	3,257,155	4,103,707	5,086,827
Turnpike General Reserve	1,103,877	1,274,957	1,335,464	1,495,957	1,869,375	2,382,511	3,007,995	3,751,294	4,620,274	5,626,876
<b>Coverage Calculations</b>										
<b>Mainline Debt Service Coverage</b>										
<b>Senior Lien</b>										
Pledged Revenues	2,661,648	2,791,075	2,923,120	3,060,111	3,204,906	3,358,718	3,521,196	3,692,462	3,872,961	4,063,204
Debt Service	(935,516)	(981,432)	(1,020,873)	(1,036,507)	(994,604)	(992,446)	(1,021,105)	(1,050,782)	(1,081,516)	(1,112,218)
Coverage	2.85 x	2.84 x	2.86 x	2.95 x	3.22 x	3.38 x	3.45 x	3.51 x	3.58 x	3.65 x
<b>Subordinate Lien</b>										
Pledged Revenues	2,664,628	2,793,868	2,923,390	3,060,212	3,204,906	3,358,718	3,521,196	3,692,462	3,872,961	4,063,204
Debt Service	(1,483,259)	(1,536,262)	(1,413,380)	(1,410,415)	(1,305,790)	(1,266,240)	(1,255,197)	(1,245,028)	(1,233,679)	(1,217,489)
Coverage	1.80 x	1.82 x	2.07 x	2.17 x	2.45 x	2.65 x	2.81 x	2.97 x	3.14 x	3.34 x
<b>Subordinate Special Revenue Lien</b>										
Pledged Revenues	2,665,000	2,794,169	2,923,565	3,060,268	3,204,906	3,358,718	3,521,196	3,692,462	3,872,961	4,063,204
Debt Service	(1,547,317)	(1,592,624)	(1,453,479)	(1,435,813)	(1,310,967)	(1,266,240)	(1,255,197)	(1,245,028)	(1,233,679)	(1,217,489)
Coverage	1.72 x	1.75 x	2.01 x	2.13 x	2.44 x	2.65 x	2.81 x	2.97 x	3.14 x	3.34 x

**Pennsylvania Turnpike Commission**

**Act 44 Financial Plan**

**(\$000) Fiscal Year End 5/31**

	2051	2052	2053	2054	2055	2056	2057
<b>Mainline Operating Income</b>							
Adjusted Gross Toll Revenues	5,622,857	5,880,122	6,149,480	6,431,470	6,726,695	7,035,800	7,359,462
Gross Non-Toll Revenues	23,529	23,765	24,002	24,242	24,485	24,730	24,977
Gross Operating Revenues	5,646,387	5,903,886	6,173,482	6,455,712	6,751,179	7,060,529	7,384,439
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	56,269	68,496	82,263	97,240	113,412	130,855	150,296
<b>Net Turnpike Revenues Before Debt Service</b>	<b>4,262,314</b>	<b>4,474,428</b>	<b>4,697,872</b>	<b>4,932,764</b>	<b>5,179,596</b>	<b>5,438,989</b>	<b>5,712,244</b>
<b>Senior Turnpike Revenue Bond Debt Service</b>	<b>1,071,101</b>	<b>1,103,806</b>	<b>1,137,618</b>	<b>1,172,527</b>	<b>1,208,582</b>	<b>1,181,069</b>	<b>1,134,892</b>
<b>Net Income Before Capital Expense and General Reserve</b>	<b>3,191,213</b>	<b>3,370,622</b>	<b>3,560,254</b>	<b>3,760,237</b>	<b>3,971,014</b>	<b>4,257,921</b>	<b>4,577,352</b>
<b>Turnpike Working Capital</b>							
Cash Beginning Balance	5,086,827	6,284,984	7,635,862	9,106,648	10,695,652	12,410,390	14,323,576
Construction Fund Beginning Balance	0	0	0	0	0	0	0
Newly Sized Senior Bond Proceeds	-	-	-	-	-	-	-
Previously Unused Senior Bond Proceeds Used	-	-	-	-	-	-	-
Current Senior Bond Proceeds Used	-	-	-	-	-	-	-
Construction Fund Ending Balance	0	0	0	0	0	0	0
Net Income	3,191,213	3,370,622	3,560,254	3,760,237	3,971,014	4,257,921	4,577,352
Capital Expenditure	1,860,678	1,935,105	2,012,509	2,093,010	2,176,730	2,263,799	2,354,351
PAYGO	1,860,678	1,935,105	2,012,509	2,093,010	2,176,730	2,263,799	2,354,351
Federal Fund Reim.	-	-	-	-	-	-	-
Capital Expenditure Reconciliation	-	-	-	-	-	-	-
Liquidity Requirement	564,639	590,389	617,348	645,571	675,118	706,053	738,444
Liquidity Requirement Cashflow Set-aside	24,590	25,750	26,960	28,223	29,547	30,935	32,391
Subordinate DSRF Interest Earnings	-	-	-	-	-	-	-
Subordinate Special Revenue Bonds DSRF Interest Earnings	-	-	-	-	-	-	-
<b>General Reserve Fund Before Subordinate Debt</b>	<b>6,392,773</b>	<b>7,694,751</b>	<b>9,156,648</b>	<b>10,745,652</b>	<b>12,460,390</b>	<b>14,373,576</b>	<b>16,514,186</b>
<b>Subordinate and Sub. Special Revenue Bonds Debt Service</b>	<b>57,789</b>	<b>8,888</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Tax-Exempt Subordinate Bonds Debt Service</b>	<b>57,789</b>	<b>8,888</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Taxable Subordinate Bonds Debt Service</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Subordinate Special Revenue Bonds Debt Service</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Funds Remaining Before Act 44 Payments</b>	<b>6,334,984</b>	<b>7,685,862</b>	<b>9,156,648</b>	<b>10,745,652</b>	<b>12,460,390</b>	<b>14,373,576</b>	<b>16,514,186</b>

**Pennsylvania Turnpike Commission**


**Act 44 Financial Plan**

**(\$000) Fiscal Year End 5/31**

	2051	2052	2053	2054	2055	2056	2057
<b>Act 44 Payment Sources</b>							
Turnpike Cash	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-
Taxable Subordinate Bond Proceeds	-	-	-	-	-	-	-
Subordinate Special Revenue Bond Proceeds	-	-	-	-	-	-	-
Roads & Bridges Payments	-	-	-	-	-	-	-
Roads & Bridges Total Sources	-	-	-	-	-	-	-
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-
Turnpike Cash	-	-	-	-	-	-	-
Subordinate Special Revenue Bond Proceeds	-	-	-	-	-	-	-
Transit Capital/Other Payments	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Transit Capital/Other Total Sources	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Turnpike Cash	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-
Transit Operations Payments	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Transit Operations Total Sources	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Turnpike Cash	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-
Taxable Subordinate Bond Proceeds	-	-	-	-	-	-	-
<b>Total Act 44 Payments</b>	50,000	50,000	50,000	50,000	50,000	50,000	50,000
<b>Total Act 44 Sources</b>	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Remaining Turnpike Cash	6,284,984	7,635,862	9,106,648	10,695,652	12,410,390	14,323,576	16,464,186
Turnpike General Reserve	6,849,622	8,226,251	9,723,996	11,341,224	13,085,508	15,029,629	17,202,630
<b>Coverage Calculations</b>							
<b>Mainline Debt Service Coverage</b>							
<b>Senior Lien</b>							
Pledged Revenues	4,262,314	4,474,428	4,697,872	4,932,764	5,179,596	5,438,989	5,712,244
Debt Service	(1,071,101)	(1,103,806)	(1,137,618)	(1,172,527)	(1,208,582)	(1,181,069)	(1,134,892)
Coverage	3.98 x	4.05 x	4.13 x	4.21 x	4.29 x	4.61 x	5.03 x
<b>Subordinate Lien</b>							
Pledged Revenues	4,262,314	4,474,428	4,697,872	4,932,764	5,179,596	5,438,989	5,712,244
Debt Service	(1,128,890)	(1,112,694)	(1,137,618)	(1,172,527)	(1,208,582)	(1,181,069)	(1,134,892)
Coverage	3.78 x	4.02 x	4.13 x	4.21 x	4.29 x	4.61 x	5.03 x
<b>Subordinate Special Revenue Lien</b>							
Pledged Revenues	4,262,314	4,474,428	4,697,872	4,932,764	5,179,596	5,438,989	5,712,244
Debt Service	(1,128,890)	(1,112,694)	(1,137,618)	(1,172,527)	(1,208,582)	(1,181,069)	(1,134,892)
Coverage	3.78 x	4.02 x	4.13 x	4.21 x	4.29 x	4.61 x	5.03 x

## **B. Financial Management Policies**

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	<p style="text-align: center;"><b><i>PENNSYLVANIA TURNPIKE COMMISSION POLICY AND PROCEDURE</i></b></p>	Number: <b>7.1</b>
		Approval Date: <b>08/16/2011</b>
		Effective Date: <b>08/31/2011</b>
Policy Subject: <b>Investment Policy and Guidelines</b>	<i>This is a statement of official Pennsylvania Turnpike Commission Policy</i>	Revised Date: <b>08/08/2011</b>
	Responsible Department: <b>Finance Department</b>	

**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 a minimum of “AA” by Standard & Poor’s Ratings Group (“Standard & Poor’s”) and “Aa2” 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 a minimum of Aa2 by Moody’s and AA 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.*

	<b><i>PENNSYLVANIA TURNPIKE COMMISSION POLICY AND PROCEDURE</i></b>		Number:	7.3
			Approval Date:	4/20/04
			Effective Date:	5/05/04
Policy Subject: Debt Management Policy		<i>This is a statement of official Pennsylvania Turnpike Commission Policy</i>	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 Repositories (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.

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

### **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.

	<p style="text-align: center;"><b><i>PENNSYLVANIA TURNPIKE COMMISSION POLICY AND PROCEDURE</i></b></p>		Number:	7.6
			Approval Date:	04/20/2004
			Effective Date:	05/05/2004
Policy Subject: Liquidity Standard Policy		<i>This is a statement of official Pennsylvania Turnpike Commission Policy</i>	Revised Date:	
		Responsible Department:	Treasury Management Dept.	


**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.



	<p style="text-align: center;"><b><i>PENNSYLVANIA TURNPIKE COMMISSION POLICY AND PROCEDURE</i></b></p>	Number: <b>7.7</b>
		Approval Date: <b>5/07/2013</b>
		Effective Date: <b>5/07/2013</b>
Policy Subject:  <b>7.7 - Interest Rate Swap Management Policy</b>	<i>This is a statement of official Pennsylvania Turnpike Commission Policy</i>	Revised Date: <b>5/07/2013</b>
	Responsible Department: <b>Finance and Administration Department</b>	

## **I. Introduction:**

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. Scope and Authority:**

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.