Pennsylvania Turnpike Commission Act 44 Financial Plan Fiscal Year 2024

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Submitted by:
Pennsylvania Turnpike Commission

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I. Executive Summary

Executive 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 (the "Turnpike") to one that also provides annual funding contributions for broader Commonwealth of Pennsylvania ("Commonwealth") transportation needs. Since Act 44's passage through the end of the fiscal year ("Fiscal" or "Fiscal Year") ended May 31, 2023 ("Fiscal 2023"), the Commission has fully met its obligations by providing a total of $7.95 billion in funding support for Commonwealth transportation needs through payments (the "Act 44/Act 89 Payments") under a Lease and Funding Agreement, dated October 14, 2007 as amended on April 4, 2014, July 31, 2018 and June 22, 2020 (collectively, the "Funding Agreement"), with the Pennsylvania Department of Transportation ("PennDOT").

Act 89 substantially altered the Commission's Act 44/Act 89 Payments to PennDOT. Under Act 89, between July 1, 2014 and Fiscal 2022, the Commission's aggregate Act 44/Act 89 payment obligation totaled $450 million annually and was allocated to support the Commonwealth's transit capital, operating, multi-modal and other non-highway programs. The Commission primarily financed its Act 44/Act 89 Payments with Subordinate Revenue Bond proceeds with at least $30 million annually funded from current revenues. From Fiscal 2023 through 2057, the Commission's annual Act 44/Act 89 Payment is reduced to $50 million, which is required by statute to be funded by current revenues and dedicated to the Commonwealth's transit capital and operating needs. Effective on July 1, 2014, when the Commission's Act 44/Act 89 Payments were exclusively used to support transit needs, after which point, the Commission no longer issued Subordinate Special Revenue Bonds. However, the Commission can still issue refunding bonds on the Subordinate Special Revenue lien for debt service savings.

The Commission did not issue any Subordinate Revenue Bonds in Fiscal 2023 to fund its Fiscal 2023 Act 44/Act 89 Payment. The $50 million Fiscal 2023 Act 44/Act 89 Payment was paid entirely from cash resources of the Commission which fully satisfied the Commission's obligations under Act 44 and Act 89 for Fiscal 2023. In Fiscal 2023, the Commission financed a portion of its expanded capital plan through the issuance of Senior Revenue Bonds. No future Subordinate Revenue Bond issuance to fund Act 44/Act 89 Payments is anticipated.

The provisions of Act 44 and the Funding Agreement require PTC to 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 requires that the financial plan demonstrate that the operations of the Commission can reasonably be anticipated to result in the Commission having sufficient funds to make payments due to PennDOT pursuant to the Funding Agreement and Act 44 during the ensuing and future fiscal years. The financial plan does not cover the funding needs for the Mon/Fayette Expressway or the Southern Beltway projects, which are separately financed by certain dedicated tax and fee revenue sources of the Commonwealth. Those revenue sources include Oil Franchise Tax Revenues and Registration Fee Revenues and are not pledged to pay debt service on the Commission's Senior Revenue Bonds, Subordinate Revenue Bonds or Subordinate Special Revenue Bonds.

This report (the "Fiscal 2024 Act 44 Financial Plan"), which was prepared by Public Resources Advisory Group, Inc. ("PRAG") and Phoenix Capital Partners LLP ("Phoenix" and together the "Advisors") for the Commission, is submitted in compliance with the financial plan requirements of Act 44 and the Funding Agreement.

Fiscal 2023 Performance and Activities. PTC's estimated traffic and total revenue performance in Fiscal 2023 (based upon unaudited actual data through April 2023) demonstrated continued improvement from the prior year, with both passenger and commercial traffic volume and total revenue exceeding prior year levels. Fiscal 2023 results through April 2023 reflect an increase in passenger car transactions of approximately 2.9% compared to results for the same period in Fiscal 2022, while commercial vehicle transactions increased by 2.5%. Total transactions through April 2023 of 187.6 million increased by 2.8% compared to the same period for Fiscal 2022.

Traffic Volume –Fiscal Year through April *

	2019	2020	2021	2022	2023	Comparisons 2023 v. 2019	Comparisons 2023 v. 2022
Class 1 (Passenger)	166,795	151,763	123,993	150,605	154,947	-7.1%	2.9%
Class 2-9 (Commercial)	28,699	28,422	29,079	31,867	32,663	13.8%	2.5%
TOTAL	195,494	180,185	153,072	182,472	187,610	-4.0%	2.8%

Gross Toll Revenue – Fiscal Year through April ($ in 000's)*

	2019	2020	2021	2022	2023	Comparisons 2023 v. 2019	Comparisons 2023 v. 2022
Class 1 (Passenger)	$669,945	$652,084	$541,087	$746,472	$789,518	17.8%	5.8%
Class 2-9 (Commercial)	539,621	557,142	587,393	679,920	721,497	33.7%	6.1%
TOTAL	$1,209,566	$1,209,226	$1,128,480	$1,426,392	$1,511,015	24.9%	5.9%

** Totals may not add due to rounding.*

Total toll revenue through April 2023, before discounts or other adjustments, of $1.51 billion represents an increase of approximately 5.9% compared to the same time period in Fiscal 2022. Gross passenger car toll revenue increased 5.8% compared to the same time period in Fiscal 2022, while gross commercial toll revenue increased 6.1% through April 2023. Passenger vehicle traffic is still 7.1% below its pre-pandemic level during the same time period in 2019. However, Fiscal 2023 commercial traffic and toll revenues for both passenger and commercial vehicles continue to reflect a substantial improvement over pre-pandemic levels. Passenger and commercial revenue in Fiscal 2023 increased 17.8% and 33.7%, respectively, compared to the same time period in Fiscal 2019. Total toll revenues are 24.9% higher for the same time period.

In the 2023 IG Traffic Study (as defined herein), CDM Smith projected approximately 205.87 million transactions and $1.54 billion in Net Toll Revenues Minus Video Bad Debt Expense for the full Fiscal

2023, which is approximately 3.8% and 1.9%, respectively, higher than the prior projection for Fiscal 2023 provided in CDM Smith's most recent forecast in the July 2022 Bring Down Letter.

The Commission's projected Fiscal 2023 operating expenses are approximately $365 million or 14% below budgeted amounts, primarily due to lower than budgeted benefits and salary costs. The Commission remains committed to controlling operating expense growth as demonstrated by seven years of actual expenditures remaining essentially flat or declining. Conservative budget assumptions and cost reductions from various initiatives including its early adoption of all-electronic tolling ("AET") have also contributed to controlling expense growth. In Fiscal 2023, as part of the Fiscal 2023 10-year Capital Plan, the Commission funded various capital projects including the Beaver River Bridge and the continuation of the Hawk Falls major bridge replacements, as well as various segments of Total Reconstruction on the Northeast Extension and Mainline. The Commission's estimated Fiscal 2023 General Reserve Fund ending balance of $385.9 million remains well above the Commission's liquidity targets. In addition, the Supplemental Capital Fund is estimated to have a Fiscal 2023 ending balance of $159.7 million. In aggregate, the Commission has more than $545.6 million in direct operational liquidity with access to an additional $200 million through its line of credit.

The Senior Revenue Bond debt service coverage ratio for Fiscal 2023 is projected to be 3.34x, which is higher than the 2.95x coverage ratio anticipated in the Fiscal 2023 Financial Plan largely due to improved toll and other revenues and lower than anticipated operating expenses. Subordinate Revenue Bond and Subordinate Special Revenue Bond debt service coverage ratios are projected to be 1.77x and 1.64x, respectively, which are also higher than figures projected in the Fiscal 2023 Financial Plan.

Improvements in the Turnpike's financial performance were acknowledged in Fiscal 2023 by three of four rating agencies in their positive credit actions. The Commission received credit rating upgrades from two rating agencies, S&P Global Ratings and Fitch Ratings, an upgraded outlook (from "stable" to "positive") from Moody's Investor's Service, and had its ratings reaffirmed by Kroll Bond Rating Agency. Stronger credit ratings enable PTC to sell bonds at lower interest rates, enhancing the Commission's borrowing capacity and enabling it to dedicate more revenues toward capital improvements. A detailed discussion of PTC's credit ratings is included in the Rating Profile section beginning on page 17.

Strategies, Policies and Covenants. As the Commission meets its Turnpike and Act 44/Act 89 Payment obligations over the course of Fiscal 2024, it will continue to refine and strengthen its financial plan in compliance with its bond covenants and financial policies, which include the following strategies:

- **Periodic Updates of Traffic and Revenue Forecasts:** After several years of only obtaining Bring Down Letters at the direction of CDM Smith, PTC obtained a new investment grade Traffic and Revenue Forecast Study in May 2023 (the "2023 IG Traffic Study") which reflects CDM Smith's updated assessment of expected traffic and revenue performance through 2053. The 2023 IG Traffic Study reflects updated econometric analysis, modifications to E-ZPass and Toll By Plate penetration rates, as well as normalization of traffic trends post the COVID-19 pandemic (predominately noted by a long-term reduction in passenger vehicle usage through the rest of the forecast period). Consistent with historical practice, PTC utilizes the 2023 IG Traffic Study and on-going analyses 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 operational, debt service and capital obligations, as well as Act 44/Act 89 Payments, through the implementation of an equitable toll rate paid by customers.

- **Operations and Maintenance Cost Strategies:** Throughout Fiscal 2024, the Commission will continue its efforts to achieve recurring savings and operating efficiencies that control operating cost growth including workforce management and other expense controls.
- **Comprehensive Capital Plan:** 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 rolling ten-year capital planning effort. In Fiscal 2023, PTC adopted the Fiscal 2024-2033 Capital Plan, a $7.7 billion ten-year capital plan.
- **Financing Initiatives:** Using this Fiscal 2024 Act 44 Financial Plan as a guide, the Commission will evaluate alternative structures that facilitate cost effective financing, meet PTC's and the Commonwealth's transportation needs, exceed bond indenture covenants and preserve credit rating strength and fiscal stability, through the maintenance of debt service coverage ratios of at least 2.0x on annual debt service for its Senior Revenue Bonds, 1.30x on combined debt service for its Senior Revenue Bonds and Subordinate Revenue Bonds and 1.20x for all three of its revenue liens. In addition, a liquidity level equal to at least 10% of operating revenues is assumed to be maintained. These levels are in excess of Bond Indenture requirements but aligned with PTC's credit ratings.

Fiscal 2024 and Long-Range Financial Plan. The Fiscal 2024 Financial Plan reflects the full-year effects of the January 2023 toll increase, which yielded a net increase in toll rates of 5%, as well as the partial year impact of the assumed January 2024 net toll increase of 5%. Forecasted revenues reflect additional annual toll increase of 5% in Fiscal 2025, with annual increases declining to 3% by Fiscal 2028. Budgeted Fiscal 2024 operating expenses are projected to increase by approximately 3% to $437.7 million when compared to budgeted Fiscal 2023 operating expenses. For Fiscal Years 2025 through 2026, the Commission has assumed a growth rate in operating expenses of 3% followed by a growth rate of 2.5% in Fiscal 2027 and then assumes a flat growth rate of 2% thereafter. The Fiscal 2024 Act 44 Financial Plan estimates that PTC is expected to generate the necessary resources to: (i) meet Turnpike operations and maintenance expenses; (ii) pay debt service obligations; (iii) satisfy bond indenture covenants; (iv) support capital reinvestment as reflected in the Fiscal 2024 Ten Year Capital Plan; and (v) provide $50 million annually in current revenues required to fully meet its Act 44/Act 89 Payments. Fiscal 2024 debt service coverages on the Commission's Senior Revenue Bonds, Subordinate Revenue Bonds and Subordinate Special Revenue Bonds are projected to be 2.82x, 1.57x and 1.47x, respectively, and are consistent with the Commission's targeted debt service coverage ratios.

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 adopted Fiscal 2024 Capital Plan, and fully fund its Act 44/Act 89 Payments. As demonstrated in this Fiscal 2024 Act 44 Financial Plan, the Commission has continued to take steps to increase its investment in its capital needs. The Fiscal 2024 Ten Year Capital Plan calls for $7.7 billion in spending paid for by $3.275 billion in pay-as-you-go funding, $4.136 billion in future Senior Revenue Bond proceeds during the ten year period, as well as $64.7 million in funds from prior bond issuances, $159.7 million in funds from the Supplemental Capital Fund and $40 million from expected federal funds reimbursement.

The expected bonding needs will require that PTC continue to regularly access the capital markets. The Fiscal 2024 Act 44 Financial Plan reflects an increase in debt funded capital projects due to higher projected capital expenditures in Fiscal 2024 and 2025 as well as adjustments to long-term revenue expectations reflected in the 2023 IG Traffic Study which assumes potential recessionary pressures and an overall slowing economic forecast. The Commission continues to pursue more pay-as-you-go funding throughout the long-range capital plan. The Fiscal 2024 Act 44 Financial Plan allows the Commission to maintain debt service coverage ratios of at least 2.0x on annual debt service for its Senior Revenue Bonds, 1.30x on combined debt service for its Senior Revenue and Subordinate Revenue Bonds and 1.20x for all three of its revenue 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. Under current planning assumptions (discussed herein), Senior Revenue Bond debt service coverage is at least 2.52x and continues to increase thereafter, which should enable the Turnpike to retain its current bond ratings. Subordinate Revenue Bond debt service coverage is lower, but at least 1.45x, while Subordinate Special Revenue Bond debt service coverage is at least 1.37x through 2057, with all coverage ratios expected to continue to increase thereafter. Finally, the Fiscal 2024 Act 44 Financial plan includes $1.7 billion in current revenue contributions to the Commonwealth through 2057 in compliance with its Act 44 / Act 89 Payment obligations.

Forward-Looking Statements/Projection Risks: This Fiscal 2024 Act 44 Financial Plan and the matters discussed herein are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those reflected herein. 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 an extended period. Downside risks to the financial plan include, but are not limited to, lower than expected traffic and toll revenues, higher interest and inflation rates, variations in relevant econometrics, and/or greater than projected operating and/or capital costs. To accommodate these risks, the financial plan requires 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 continue to 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.

II. Commission Overview

Commission Overview

The Commission serves an integral role in meeting the Commonwealth's mobility needs. Since 1940, the Commission has been responsible for the construction, operation and maintenance of the Pennsylvania Turnpike, a system now encompassing 565 route miles. 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; a six mile segment of the Southern Beltway (known as the "Findlay Connector"); and a 13 mile section of the Southern Beltway between U.S. 22 and I-79 which connects to the Findlay Connector (collectively, the "System"). This new section of the Southern Beltway, which opened in October of 2021, leads to I-79 at the Alleghany-Washington County line.

By fostering access and facilitating economic development, 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 PTC serves, traffic demand was steady between Fiscal 2004 and 2019. In March 2020, as result of the impacts of the COVID-19 pandemic, traffic volume declined on the System. Volume losses stabilized in May 2020 and with some periodic exceptions, have continued to improve.

For Fiscal 2023 through April, passenger vehicles represent 82.6% of Turnpike traffic, while commercial vehicles (mostly trucks) comprise the balance. Reflecting PTC's strategy to charge trucks a toll more commensurate with the greater maintenance requirements to accommodate these vehicles, the Commission recognized 52.3% of its gross toll revenues from passenger vehicles and 47.7% from commercial vehicles during Fiscal 2023 through April.

Initially set for the fall of 2021, the Commission's conversion to AET occurred earlier, in March 2020, following the onset of the COVID-19 Pandemic. As an AET system, the Commission's cashless tolling is executed through two main types of electronic tolling ("ETC"): (i) by E-ZPass, and (ii) by a "Toll By Plate" system where non-E-ZPass customers are invoiced for assessed tolls. ETC revenues include E-ZPass, violation enforcement system ("VES") and Toll By Plate revenues. The Commission plans to fully convert the System to Open Road Tolling ("ORT") where cameras on overhead gantries capture a vehicle's license plate at highway speed, and a toll invoice is mailed to the vehicle's registered owner. The conversion to ORT will eventually lead to the removal of toll plaza structures at existing exits on the System, allowing for a free flow of traffic on and off the System. An ORT-based system will also allow the Commission to increase access points (entrances and exits) to the System. The transition to ORT is currently scheduled to commence on the segment from the Reading Interchange to the New Jersey line in January 2025 while the western segments are scheduled to transition by 2027. Both conversions were previously deferred during the pandemic in 2020.

To provide and maintain high quality transportation infrastructure for its customers and preserve the Turnpike's economic competitiveness, PTC continues to implement its rolling ten-year capital improvement program that features (among other things) 1) total reconstruction programs and roadway resurfacing; 2) the continued rehabilitation or replacement of structurally deficient bridges; 3) the conversion to ORT; and 4) the installation of a fiber optic network.

The combination of a resilient travel market, periodic toll increases, capital reinvestment and prudent financial management have allowed PTC to maintain a strong financial position.

Act 44, Act 89 and PTC's Mandate

Act 44 as amended by Act 89 expanded 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 Act 44/Act 89 Payments are deposited into the Public Transportation Trust Fund. PTC's contributions are in addition to certain dedicated taxes and fees received by the fund. Beginning in Fiscal 2015, Act 89 dedicated all the Commission's Act 44/Act 89 Payments to transit and multi-modal programs. Total annual Act 44/Act 89 Payments through Fiscal 2022 were $450 million. Beginning in Fiscal 2023, the Act 44/Act 89 Payments were reduced to $50 million through Fiscal 2057. Exhibit 1 provides the allocation of Act 44/Act 89 Payments by purpose pursuant to Act 89 in Fiscal 2018 through Fiscal 2057. Fiscal 2023 was the first year in which the Commission did not issue bonds to fund its Act 44/Act 89 Payments.

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

	Transit			Mult-Modal	Total
	Operating	Capital (*)	Subtotal	Programs	Funding
2018	$25,000	$395,000	$420,000	$30,000	$450,000
2019	$25,000	$395,000	$420,000	$30,000	$450,000
2020	$25,000	$395,000	$420,000	$30,000	$450,000
2021	$25,000	$395,000	$420,000	$30,000	$450,000
2022	$25,000	$395,000	$420,000	$30,000	$450,000
2023-2057	$25,000	$25,000	$50,000	$0	$50,000

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

Since adoption, funding Act 44/Act 89 Payments has required the Commission to: 1) significantly increase its debt levels to finance Act 44/Act 89 Payments; 2) implement a regular schedule of toll increases on the Turnpike; and 3) pursue an aggressive cost containment program to manage expense growth. Pursuant to the Act, the Commission is required to provide 100% of its Act 44/Act 89 Payments from current Commission revenues. Fiscal 2022 was the final year in which debt was issued to finance the Commission's Act 44/Act 89 Payments. Beginning in Fiscal 2023, the annual Act 44/Act 89 Payment must be made using revenues of the Commission.

Commission Revenue Sources, Debt Portfolio and Financing Tools

The Commission's revenues are principally derived from three separate sources: (1) toll revenues from the operation of the System, (2) revenue derived from a portion of the Commonwealth's Oil Franchise Tax, and (3) revenue derived from a portion of the Commonwealth's vehicle Registration Fee Revenues.

- **Toll Revenues.** The largest part of the Commission's revenues is derived from the collection of all rates, rents, fees, charges, fines and other income derived by the Commission from the vehicular usage of the System and all rights to receive the same. Tolls are pledged to secure the Commission's outstanding Senior Revenue Bonds and other parity and subordinate obligations issued under the Senior Revenue Indenture. The Commission has unlimited toll rate setting authority which provides security for the Commission to meet funding needs for all expenditures and other fixed costs.

- **Oil Franchise Tax Revenues.** The Commission's second principal stream of revenues consists of that portion of the Commonwealth's oil company franchise tax revenues allocated by statute to the Commission. Oil Franchise Tax Revenues are primarily pledged to the separate trust estate securing the Commission's Oil Franchise Tax Revenue Bonds and are not reflected in the financial plan.

- **Registration Fee Revenues.** The Commission's third principal stream of revenues consists of a portion of the Commonwealth's vehicle registration fee revenues. Registration Fee Revenues consist of an annual appropriation of $28 million of increased registration fees on deposit in the Commonwealth's Motor License Fund maintained by the State Treasurer and allocated to the Commission pursuant to Act 3 of 1997. Registration Fee Revenues are primarily pledged to the separate trust estate securing the Commission's Registration Fee Revenue Bonds and are not reflected in the financial plan.

The Commission has the following outstanding indebtedness: (1) Senior Revenue Bonds secured by Tolls received by or on behalf of the Commission from the System; (2) Subordinate Revenue Bonds secured by payments transferred from the General Reserve Fund under the Senior Revenue Indenture after the payment of all Senior Revenue Indenture Obligations (the "Commission Payments"); (3) Motor License Fund-Enhanced Subordinate Special Revenue Bonds secured by Commission Payments on a subordinate basis to Subordinate Revenue Bonds; (4) Oil Franchise Tax Revenue Bonds secured by a pledge of the Oil Franchise Tax Revenues; and (5) Registration Fee Revenue Bonds secured by registration fee revenues allocated to the Commission from the Commonwealth's the Motor License Fund.

The Commission uses Senior Revenue Bonds to fund its capital program and, in the past, issued Subordinate Revenue Bonds to meet its Act 44/Act 89 Payments. These are summarized below:

- **Senior Revenue Bonds:** Given PTC's multi-year capital needs and the long useful life of major capital improvements to the System, 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:** Historically, the Commission debt financed the majority of its Act 44/Act 89 Payments with proceeds from its Subordinate Revenue Bonds. 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.

The following table summarizes the Commission's outstanding Indebtedness as of June 1, 2023:

Outstanding Commission Indebtedness*

	Outstanding Principal	Accreted thru 6/1/2023	Total Outstanding
Turnpike Senior Revenue Bonds	$6,497,630,000	-	$6,497,630,000
Turnpike Subordinate Revenue Bonds	6,150,539,921	51,377,873	6,201,917,795
Turnpike Subordinate Special Revenue Bonds	932,205,728	47,953,832	980,159,560
Oil Franchise Tax Revenue Bonds (Senior and Subordinated)	1,470,196,246	16,085,021	1,486,281,267
Registration Fee Revenue Bonds	329,660,000	-	329,660,000

**Amount reported as Senior Revenue Bonds outstanding principal is inclusive of bonds expected to be refunded in the Series of 2024 (Forward Delivery) refunding executed in December 2022.*

PTC has one loan agreement outstanding under the EB-5 program which is also known as the Immigrant Investor Program and is administered by the U.S. Citizenship and Immigration Services (the "EB-5 Loans"). The EB-5 Loans are on parity with the Commission's Senior Revenue Bonds and are captured in the table above in the Turnpike Senior Revenue Bonds outstanding principal. EB-5 Loans are five-year interest only construction loans with an interest rate of 2.0%. After the initial five-year period, PTC has the option to enter into a 30-year loan with the Delaware Valley Regional Center or repay the five-year EB-5 Loan with an alternative source of funds. The Commission's current outstanding loan agreement was entered into in 2016 and provided up to $800 million in draw-down loan capacity which is available to be borrowed in 16 tranches of up to $50 million under the EB-5 program (the "2016 EB-5 Loans"), of which $183,500,000 has been drawn to date, leaving $616,500,000 of 2016 EB-5 Loans available to be drawn down. The Commission refunded its first tranche under the 2016 EB-5 Loans in November 2022, leaving $133,500,000 outstanding under the program. The Fiscal 2024 Act 44 Financial Plan assumes no additional draws on the 2016 EB-5 Loan.

III. Fiscal 2023 Activities

Fiscal 2023 Activities

PTC's Fiscal Year 2023 financial results reflect continued revenue recovery at levels surpassing pre-pandemic figures and the reduced annual $50 million Act 44/Act 89 Payment from current revenues. While meeting its funding commitments under the sixteenth year of Act 44, the Commission also maintained and improved the Turnpike. With improving revenues, the Commission committed $269 million of revenue to pay-as-you-go capital funding, compared to $230 million in Fiscal 2022. In Fiscal Year 2023, the Commission made deposits into the Supplemental Capital Fund totaling $73 million. This increasing commitment of pay-go resources is consistent with the Commission's focus on capital investment and the increase in funding under its recent capital plans.

Fiscal 2023 market conditions were less favorable than prior years with increased rates and credit spreads. Despite the weakening market environment, the Commission continued its efforts to maintain and improve the Turnpike. The Commission's efforts were acknowledged in Fiscal 2023 by three of four rating agencies in their positive credit actions (as described below). PTC continues to pursue debt structures to yield the lowest possible costs while meeting its obligations.

PTC secured long term capital financing and undertook strategic refundings that provided significant savings in Fiscal 2023. The Commission executed four bond transactions totaling approximately $1.13 billion in par. These transactions consisted of the $255 million Senior Turnpike Revenue Refunding Bonds, Series A of 2022, which refunded $274 million of the Commission's outstanding debt through a tender solicitation of existing PTC Bond holders, $294 million Senior Turnpike Revenue Bonds, Series B of 2022, of which $50 million of proceeds were used to refund the Commission's outstanding 2018 EB-5 Tranche No. 1 with the bulk of the net proceeds being allocated to capital funding, $233 million Senior Turnpike Revenue Refunding Bonds, Series of 2024 (Forward Delivery), which refunded $233 million of the Commission's outstanding debt through a forward delivery direct loan with Wells Fargo, and $344 million Turnpike Subordinate Revenue Refunding Bonds, First Series of 2023 which refunded $357 million of the Commission's outstanding subordinate debt through a tender solicitation of existing PTC Bond holders. In aggregate, the Commission's three refunding transactions refunded more than $900 million in Senior Revenue and Subordinate Revenue bonds which generated debt service savings totally approximately $100 million over the remaining life of the refunded bonds which represents an estimated present value savings of $69.4 million. In addition, the Commission is in the process of renewing its $200 million revolving line of credit, which is scheduled to close in June 2023, for an Indenture-mandated term of just under one year, to maintain its enhanced levels of liquidity.

Meeting Act 44 and Turnpike funding commitments 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.

Exhibit 2
Fiscal 2023 Estimated Results compared to Fiscal 2022 Actual Results and Prior Fiscal 2023 Estimate ($ 000s), Fiscal Year End May 31

	Actual 2022	Prior Estimated 2023 Plan	Current Estimated 2023 Plan	% Diff Act 2022	% Diff Prior 2023
Turnpike Operating Income					
Adjusted Gross Toll Revenues (+)	1,459,916	1,511,286	1,540,401	5.5%	1.9%
Gross Non-Toll Revenues (+)	43,662	40,440	47,680	9.2%	17.9%
Gross Operating Revenues (+)	1,503,578	1,551,726	1,588,081	5.6%	2.3%
Operating Expense (-)*	312,258	425,219	365,000	16.9%	-14.2%
Interest Income (Senior DSRF and GRF earnings) (+)	12,534	11,864	20,438	63.1%	72.3%
Net Turnpike Revenues Before Debt Service	1,203,854	1,138,371	1,243,519	3.3%	9.2%
Senior Turnpike Revenue Bond Debt Service (-)	311,234	385,325	372,520	19.7%	-3.3%
Net Income Before Capital Expense and General Reserve	892,620	753,046	870,999	-2.4%	15.7%
Capital Funding					
Construction Fund Beginning Balance	122,811	311,939	311,939	154.0%	0.0%
Newly Sized Senior Bond Proceeds (+)	506,950	99,099	250,000	-50.7%	152.3%
Federal Fund Reimb. (+)	11,232	-	-	-100.0%	-
PAYGO Contribution (+)	210,718	250,000	222,518	5.6%	-11.0%
Additional PAYGO Transfer from Gen. Res. Fund (+)	19,605	-	46,500	137.2%	-
Capital Expenditure (-)	529,880	661,038	776,789	46.6%	17.5%
Reconciliation (+)	(29,497)	-	10,499		
Construction Fund Ending Balance	311,939	-	64,667	-79.3%	-
Cash Balances					
Cash Beginning Balance (excl. Liquidity)	329,029	287,808	287,156	-12.7%	-0.2%
Net Income (+)	892,620	753,046	870,999	-2.4%	15.7%
PAYGO (-)	210,718	250,000	222,518	5.6%	-11.0%
Additional Cash Payments for OPEB, DSRF, Defeasance (-)	17,365	-	30,727	76.9%	-
Additional Transfer to Res. Main. Fund for Capital Funding (-)	19,605	-	46,500	137.2%	-
Transfer to Supplemental Capital Fund (-)	107,000	23,000	73,000	-31.8%	217.4%
Other Transfers (-)	3,600	-	24,200	572.2%	-
Reconciliation (+)	(143,080)	-	(95,285)		
Liquidity Requirement Cashflow Set-aside (-)	27,341	5,467	8,450	-69.1%	54.6%
Subordinate and Sub. Special Revenue Bonds Int. Earnings (+)	5,583	6,184	7,804	39.8%	26.2%
Subordinate Bonds Debt Service (-)	331,983	333,185	334,737	0.8%	0.5%
Subordinate Special Revenue Bonds Debt Service (-)	49,385	53,427	53,427	8.2%	0.0%
Net Funds Remaining Before Act 44 Payments	317,156	381,959	277,115	-12.6%	-27.4%
Liquidity Balance	150,358	155,173	158,808	5.6%	2.3%
Debt Service Coverage Ratios					
Senior Lien					
Pledged Revenues	1,203,854	1,138,371	1,243,519		
Debt Service	311,234	385,325	372,520		
Coverage	3.87 x	2.95 x	3.34 x		
Subordinate Lien					
Pledged Revenues	1,208,996	1,144,114	1,250,826		
Debt Service	643,216	718,510	707,257		
Coverage	1.88 x	1.59 x	1.77 x		
Subordinate Special Revenue Lien					
Pledged Revenues	1,209,437	1,144,555	1,251,323		
Debt Service	692,602	771,938	760,684		
Coverage	1.75 x	1.48 x	1.64 x		

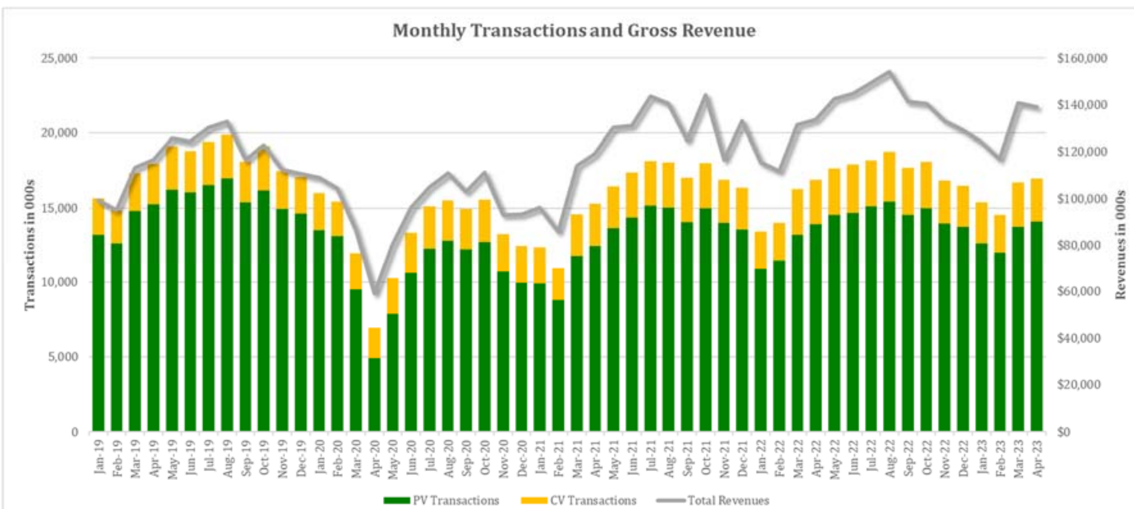
Note: Pledged revenues include net revenues and debt service reserve fund interest earnings attributable to each lien

** Operating expenses for Fiscal Year 2022 include accounting adjustments to pension and OPEB expenses that reduce the reported operating expenses by $59 million. Without these adjustments, estimated operating expenses are $371 million.*

Estimated Toll Rates, Tolls and Other Revenues

PTC toll revenues after commercial discounts, electronic toll collection adjustments and allowances for toll bad debt are estimated to have increased 5.5% in Fiscal 2023, to $1.54 billion, compared to Fiscal 2022 results. The increase in revenues is primarily a result of improving traffic volume and toll increases. In Fiscal 2023 the Commission implemented its scheduled 5% toll increase that took effect in January 2023.

Monthly transactions in Fiscal 2023 (through April) only lagged pre-pandemic (Fiscal 2019) levels by approximately 3% on average. Monthly revenues for FY 2023 through April have exceeded pre-pandemic levels by approximately 25% on average. The following charts display monthly revenue and monthly volume trends for PTC for Fiscal 2020 through Fiscal 2022, and the eleven months of Fiscal 2023 through April.



For Fiscal 2023, PTC's other income consisting of VES and other ETC related fees, lease and rental fees and concession fees is expected to be $47.68 million. Interest income is estimated to be an additional $28.2 million.

Turnpike Operations and Capital Program

The budgeted operating expenses for Fiscal 2023 of $425 million were 1.9% higher than Fiscal 2022 budgeted figures of $417 million, consistent with the Commission's continued focus on managing year over year costs. Projected Fiscal 2023 unaudited operating expenses of $365 million are approximately $60 million or 14% below budgeted amounts primarily due to lower benefit, wages and salary expenditures. Approximately 65% of the Commission's operating budget is allocable to departmental expenses which are directly under the Commission's control. The remaining 35% of the Commission's operating budget includes the Commission's pension expense related to the State Employees Retirement System ("SERS") and the Commission's projected expense for the Pennsylvania State Police, both of which are subject to external factors such as market performance, Commonwealth funding and external staffing (i.e., State Police trooper allocations to PTC). Actual debt service coverage ratios are estimated to be higher than forecasted in the Fiscal 2023 Financial

Plan due to improved operating performance, higher revenues, lower operating expenses and slightly lower than estimated debt service.

Turnpike capital outlays are estimated at $776.8 million for Fiscal 2023, of which $269 million or nearly 35% was pay as you go. While originally forecasted at $661 million, the higher than estimated Fiscal 2023 capital outlay was primarily due to inflation, with project bids coming in substantially above cost estimates. Major initiatives undertaken include:

- Highway improvements encompassing 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 152 miles of the Mainline with most of these sections widened to six lanes. Approximately another 13.53 miles are currently in total reconstruction and 86 miles are currently in design.
- Bridge projects 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.
    - The Beaver River Bridge project consists of 1.16 miles of major bridge replacement and updates to the access ramp to the Beaver Valley Interchange. It is expected to be completed in calendar year 2026.
    - Hawk Falls project continued in FY23 and consists of 1.15 miles of major bridge replacement and is expected to be completed in calendar year 2024.
- Tuscarora Tunnel improvement project to improve the eastbound and westbound tunnel tubes. In FY23, the eastbound tube was opened to traffic, and the rehabilitation construction moved to the westbound tube.
- Facilities and energy management improvements including repair and replacement of maintenance facilities with the completion of Devault Maintenance Facility expected by December 2023.
- The fleet program which includes the purchase of rolling stock to insure adequate maintenance of the roadway system.
- Installation of the full-System fiber optic network along the right-of-way continued in FY23. The first segment on the Mainline from the Harrisburg East interchange to the Delaware River Bridge has been completed for construction and testing and is expected to have final acceptance in June 2023. The second segment, the full length of the Northeast Extension, is expected to be completed by November 2023 while the third segment - Harrisburg East Interchange to Gettysburg Pike Interchange – has a design/build contract and will begin the design phase Summer 2023.
- Information technology which includes toll collection projects, communication, application development and technical operational needs. In FY23, PTC began building the Unified Back Office System (UBOS) that provides the infrastructure, tools, and information management systems to enhance our customer service.

In Fiscal 2023, the Commission used the Supplemental Capital Fund under the Senior Revenue Bond Indenture to fund additional capital projects beyond those identified in the FY 2023 Ten Year Capital Plan. The Commission made deposits into the Supplemental Capital Fund totaling $73 million and used approximately $12 million to fund additional capital needs.

Act 44 Activities

As required under the Act, the Commission met its Fiscal 2023 Act 44 obligation of $50 million from current revenues of the Commission. The Commission does not anticipate any additional debt issuance for Act 44/Act 89 Payment funding.

The Commission's General Reserve Fund ending balance for Fiscal 2023 is estimated to be $385.9 million, which is $101 million or 21% lower than the amount projected in the Fiscal 2023 Financial Plan. This is primarily due to the Commission's deposit of $73 million from the General Reserve Fund into the Supplemental Capital Fund during Fiscal 2023 and higher than estimated capital expenditures. During Fiscal 2023 the Commission transferred nearly $175 million from the General Reserve Fund to fund, among other things: 1) the cash contributions to defease a portion of existing debt in connection with the Commission's tender refundings and replenishing debt service reserve requirements; 2) pay as you go capital funding above levels included in the Fiscal 2023 Financial Plan; and 3) funding additional solar and alternative capital projects. The Commission's Supplemental Capital Fund ending balance for Fiscal 2023 is estimated to be $160 million resulting in a combined balance with the General Reserve Fund of $546 million, which is in line with the amount projected in the Fiscal 2023 Financial Plan. The strong financial position of the Commission is demonstrated by the estimated combined General Reserve Fund and Supplemental Capital Fund balance, which is more than double the amounts held in the General Reserve Fund in Fiscal 2014 and significantly exceeds the amount required under the Commission's policy.

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Exhibit 3
Fiscal 2023 Estimated Results compared to Fiscal 2022 Actual Results and Prior Fiscal 2023 Fiscal Plan Estimate
($ 000s), Fiscal Year End May 31

	Actual 2022	Prior Estimated 2023 Plan	Current Estimated 2023 Plan	% Diff Act 2022	% Diff Prior 2023
Act 44 Payment Sources					
Net Funds Remaining Before Act 44 Payments	317,156	381,959	277,115	-12.6%	-27.4%
Subordinate Bond Proceeds	420,000	-	-		
Act 44 Payments					
Transit Capital/Other Payments	425,000	25,000	25,000		
Transit Capital/Other Payments Sources					
Turnpike Cash	5,000	25,000	25,000		
Tax-Exempt Subordinate Bond Proceeds	420,000	-	-		
Transit Capital/Other Total Sources	425,000	25,000	25,000		
Transit Operations Payments	25,000	25,000	25,000		
Transit Operations Sources					
Turnpike Cash	25,000	25,000	25,000		
Transit Operations Total Sources	25,000	25,000	25,000		
Total Act 44 Payments	450,000	50,000	50,000		
Total Act 44 Sources	450,000	50,000	50,000		
Remaining Turnpike Cash	287,156	331,959	227,115		
General Reserve Fund/Liquidity Requirement	437,514	487,131	385,923		
Supplemental Capital Fund	94,709	59,649	159,728		
Gen. Res. Fund/Liquidity Req. + Suppl. Capital Fund	532,223	546,780	545,651		

Rating Profile

The Commission maintains ratings from Moody's Investor Services ("Moody's"), Fitch Ratings Inc. ("Fitch"), S&P Global Ratings ("S&P") and Kroll Bond Rating Agency ("Kroll"). Moody's affirmed its "A1" rating on the Senior Revenue Bonds and its "A3" rating on the Subordinate Revenue Bonds on November 8, 2022, after upgrading the outlook from "stable" to "positive" on September 2, 2022. The outlook was revised due to Moody's increased certainty that the Commission will maintain strong financial metrices while deleveraging over the next few years. Fitch upgraded its rating from "A+" to "AA-" on the Senior Revenue Bonds and from "A-" to "A" on the Subordinate Revenue Bonds and affirmed its "stable" outlook on both on August 23, 2022. The rating was upgraded due to the Commission's strengthening credit profile and improved financial flexibility following the partial sunsetting of the PTC's Act 44 transfer obligations. S&P upgraded its rating on the Senior Revenue Bonds from "A+" to "AA-" and from "A" to "A+" on the Subordinate Revenue Bonds, and affirmed their "stable" outlook on January 26, 2023. The rating was revised due to resilient financial results, demand characteristics and the permanent drop in Act 44/Act 89 Payments. Kroll affirmed their ratings and outlooks on the Senior Revenue Bonds at "AA-" (stable) and Subordinate Revenue Bonds at "A+" (stable) on February 14, 2023, respectively. The following table highlights the Commission's credit strengths and weaknesses as described by each respective credit rating agency. [1]

Rating Agency	Credit Strengths	Credit Challenges
Moody's Investors Service **Senior**: A1 (Positive) **Sub. Lien:** A3 (Positive) *Date of report: 9/2/2022 (11/8/2022 and 2/14/2023 ratings affirmed)*	• Essential transportation corridor in the eastern US. • Long history of well managed financial operations with demonstrated willingness to raise tolls. • Strong historical and forecast DSCRs. • Increased use of excess cashflow to fund capital improvement plan instead of debt • Expectation the Commonwealth will honor Act 89 given other funds for transportation needs Annual public update of Act 44 Financial Plan provides transparency.	• Could be leveraged again if new legislation requires large annual transfers to fund the other state infrastructure needs again. • Risk of opposition to toll increases. • Revenue growth requires annual toll rate increases to meet targeted financial metrics, pressuring user affordability and potentially dampening growth. • Significant 10-year CIP will increase debt.
Standard & Poor's Ratings Services **Senior**: AA- (Stable) **Sub. Lien**: A+ (Stable) *Date of report: 1/26/2023 (2/14/2023 ratings affirmed)*	• Strategic location and favorable traffic trends, with direct links to adjacent state turnpikes in Ohio and New Jersey. • Lack of significant competition from toll-free roads. • Demonstrated willingness and ability to adjust toll rates frequently. • Ability to maintain steady financial metrics, despite increases in debt service and leverage. • Good revenue diversity.	• High debt burden. • Reliance on frequent toll increases to address rising debt service requirements.
FitchRatings **Senior**: AA- (Stable) **Sub. Lien**: A (Stable) *Date of report: 8/23/2022 (2/14/2023 ratings affirmed)*	• Improved financial metrics. • Ability and willingness to raise tolls. • History of prudent cost management. • Essential route with commercial exposure. • Reasonable debt structure.	• Sizeable debt burden with debt service pressure for the next several years. • Sizeable capital program. • Potential political opposition to annual toll increases.
KBRA Kroll Bond Rating Agency **Senior:** AA- (Stable) **Sub. Lien:** A+ (Stable) *Date of report: 2/15/2023*	• Highly essential statewide, regional toll road system with limited competition. • Prudent finance management and controls has resulted in strong margins and stable debt service coverage • PTC has full rate setting autonomy. • Liquidity is ample.	• O&M, capital and existing debt obligations, are substantial and require annual toll increases, which may dampen traffic demand, reducing operating margins and financial flexibility. • Planned long-term issuance may strain subordinate obligation coverage if actual traffic demand is materially weaker than forecast.

[1] The ratings, including any related outlook with respect to potential changes in such ratings, reflect only the respective views of said rating agencies and an explanation of the significance of the ratings may be obtained only from said rating agencies. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies, and assumptions of its own. There is no assurance that such ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by said rating agencies if, in their judgment, circumstances so warrant.

Challenges

While PTC has achieved several important accomplishments since the passage of Act 44, the Commission continues to face a number of challenges. Specifically, these challenges center on balancing significant capital needs while maintaining financial flexibility and navigating various economic and interest rate cycles. Following the material reductions in annual Act 44/Act 89 Payments in Fiscal 2023, the Commission is focused on its future capital needs. The Commission's Fiscal 2024 Capital Plan provides a $436 million expansion upon the robust capital plan levels established in the Fiscal 2023 Capital Plan. This elevated capital funding continues PTC's progress toward restoring capital improvement funding levels to the Fiscal 2015 amounts and is strategically implemented to align with the projected decrease in Act 44/Act 89 Payments that began in Fiscal 2023 while also accommodating increasing inflationary pressures. With the increased capital investment comes a continued need to access capital markets.

Large and Increasing Capital Needs. PTC's Fiscal 2024 rolling ten year Capital Plan represents a 6% increase over the Fiscal 2023 Capital Plan. The Commission's projected capital needs will continue to require regular capital market access, with total anticipated Senior Revenue Bond issuance of $4.46 billion through 2033. The Commission also continues to manage its substantial existing debt portfolio of $6.5 billion in Senior Revenue Bonds and $7.2 billion in Subordinate and Special Revenue Bonds. PTC has a well-established track record of executing large capital initiatives while maintaining financial flexibility.

These large capital funding needs will have to be managed in a period of substantial interest rate and inflation uncertainty, which may result in increasing debt, capital, and operating costs. Long-term changes in user behavior including telework and travel preferences in response to COVID-19 and technological changes may also create variability in future forecasts. The Commission remains committed to navigating these challenges through prudent budgeting and operational initiatives to minimize cost increases and maintaining the System to best serve the Commonwealth and its citizens.

Addressing Estimated Revenue Leakage: In March 2020, the Commission converted its entire system to all-electronic tolling (AET) whereby all users are required to pay tolls via E-ZPass transponders or via Toll by Plate (TBP) technology where cameras read the license plates of all non-E-ZPass customers, as they pass through each toll gantry and the registered owner of the vehicle is then invoiced for the assessed tolls. While AET comes with many safety and operational benefits, there are some challenges related to collection rates, customer behavior and technology. Prior to adopting AET, the Commission explored the experiences of other toll operators nationally that had converted to AET with respect to their collection rates. In response to the experiences observed elsewhere, the Commission adopted a 45% additional charge for TBP customers as an offset to the expected lower collection rates as compared to E-ZPass. The additional charge was meant ensure that AET conversion was revenue neutral to the Commission. Between April 2022 and March 2023, approximately 87.2% of all transactions were E-ZPass or E-ZPass associated transactions which are generally pre-paid accounts with funds on deposit with the Commission. The remaining 12.8% of transactions are TBP transactions which are invoiced to the registered owner of the vehicle. PTC consistently receives payments on 93.3% of all invoiced transactions (inclusive of E-ZPass and TBP transactions). Although there is no definitive study of toll revenue collection performance at the industry level, the PTC's consultants have indicated 93% as an industry standard for AET collections. And, prior to converting to AET, the Commission established a target of 92-94% collection rate, with the 45% additional TBP charge meant to offset any unbillable or uncollected TBP tolls. The Commission's collection experience is within our established targets and consistent with industry standards. The remaining 6.7% of transactions are unbillable or uncollectible due to customer behaviors to avoid paying the toll (either through customer confusion or theft), system/data issues (interstate data exchange and protocols impede the ability to collect tolls out of state) or because a license plate could not be identified or no valid address could be found for the license plate. Through March 2023, 4.6% of transactions are invoiced and expected unpaid. In addition, the Commission estimates that approximately 0.9% of all transactions are unbillable due to either a license plate not present or obstructed. Another estimated 0.8% of transactions are unbillable due to incomplete or unavailable address information for the license plate from the appropriate DMV. Addresses that are undeliverable account for an estimated 0.4% of transactions. Since fully converting to AET in March 2020, the Commission is averaging an invoice payment rate of greater than 50% after 150 days following billing. For the rolling twelve month period ending March 30, 2023, the Commission estimates that approximately $170 million is currently unbillable or uncollected. The 45% surcharge plus the existing toll differential between the then cash rate and E-ZPass makes AET revenue-neutral.

In addition to implementing the additional TBP of 45% charge on all TBP transactions which was implemented to encourage increased use of E-ZPass and to offset estimated revenue leakage, the Commission continues to actively work to address revenue leakage due to AET through various initiatives that address customer behaviors and system improvement. In response to unpaid invoices, the Commission attempts to collect outstanding amounts via various options where practical and permitted by law. These include but are not limited to: 1) collection agency actions; 2) vehicle registration suspensions; and 3) court actions. The Commission provides a 15% discount for TBP customers that pre-register their address and/or credit card for invoicing and has established new cash payment channels for unbanked customers through a partnership with Kubra. PTC is also pursuing reciprocity agreements with other states to enhance cross state collections. On November 3, 2022, the Governor approved Act 112 of 2022 which included changes to strength enforcement measures for toll violators by lowering the dollar threshold from $500 to $250 in unpaid tolls and fees; lowering the number of unpaid Toll By Plate invoices or violations from six to four; and extending the statute of limitations for unpaid invoices or violations from 3 to 5 years. Under Act 89, motorists who commit or attempt to commit fare evasion on the System shall have committed a summary offense and upon conviction, shall be fined a sum between $100 and $1,000 in addition to civil penalties that are already in place. Further, upon conviction, motorists who take affirmative action to evade a System fare can be found to have committed a misdemeanor of the third degree, punishable by fines ranging from $3,000 to $6,500 (depending on the number of offenses), and imprisonment of not more than six months for a second offense.

In addition, the Commission (i) has implemented a Revenue Assurance Plan to monitor toll collection rate performance regularly, (ii) continues to invest in technology in the 10 year Capital Improvement Plan and (iii) plans to convert to Open Road Tolling ("ORT") which applies advanced technologies and cameras on overhead gantries capture a vehicle's license plate at highway speed.

Managing Financial Obligations. The Commission meets the challenges of managing increasing financial obligations by having a financial planning process to track toll revenues and develop financing strategies to meet the Commission's ongoing Turnpike and Act 44/Act 89 Payment obligations while maintaining sufficient fund balances that provide internal liquidity to meet unexpected short-term needs. As part of this effort and in consideration of CDM Smith's projected Net Toll Revenues, PTC estimates 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 PTC's sixteenth annual report of this effort. During 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/Act 89 Payments, 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, PTC will continue to 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.

Litigation

The Commission is routinely subject to claims for personal injury and/or property damage pending against the Commission pertaining to matters normally incidental to routine operations. The Commission is covered by Act No. 152, approved September 28, 1978, which provides for a limited waiver of sovereign immunity by the Commonwealth. Damages for most losses are limited to $250,000 for each plaintiff or $1,000,000 in the aggregate.

Julie E. Thomas v. TransCore, LP & Pennsylvania Turnpike Commission. On April 28, 2021, Julie Thomas (the "Plaintiff"), an E-ZPass customer and frequent traveler on the Turnpike, filed a putative class action lawsuit against the Commission, and TransCore, L.P. ("TransCore"), as the vendor that provides, operates, and maintains the Electronic Toll Collection Customer Service Center and Violations Processing Center.

The Commission and TransCore were served with the complaint on May 24, 2021. The complaint centers mostly on video tolls ("V-Tolls"). A V-Toll is an E-ZPass charge that is assessed when, for any reason, the customer's E-ZPass transponder is not read on both the customer's entry and exit from the Turnpike, resulting in a toll assessment based upon a video snapshot of the customer's license plate.

The Plaintiff asserts claims for conversion and unjust enrichment against the Commission, as well as additional claims against TransCore. The Plaintiff principally alleges that (i) the V-Tolls charged to her account are excessive and amount to disproportionate fines and penalties, (ii) refunds should be made to the customer's bank accounts, not the E-ZPass account, and (iii) the Commission and TransCore failed to notify E-ZPass customers that newly installed tolling equipment is incompatible with older E-ZPass transponders; resulting in more V-Tolls and overall higher tolls. Based on these allegations, the Plaintiff seeks, among other things, compensatory and punitive damages, as well as attorney's fees and costs, and asks the Court to certify a class action.

On June 14, 2021, TransCore filed a notice of removal seeking to move this matter from Dauphin County Court of Common Pleas. The matter was removed to the U.S. District Court for the Eastern District of Pennsylvania. On June 21, 2021, both the Commission and TransCore filed motions to dismiss. In response, Plaintiff filed a motion to remand the action to state court, which the Commission and TransCore opposed. On March 30, 2022, the Court denied Plaintiff's motion to remand and the Commission's and TransCore's motions to dismiss without prejudice, and has allowed Plaintiff 45 days to take jurisdictional discovery.

Following jurisdictional discovery, Plaintiff renewed her motion for remand which was denied. Plaintiff most recently filed an amended complaint on May 19, 2023.

The Commission is evaluating the lawsuit and cannot, at this time, predict the ultimate outcome. However, the Commission continues to assert all available defenses against these allegations in court.

IV. Strategies, Policies and Covenants to Maintain Financial Flexibility

Strategies, Policies and Covenants to Maintain Financial Flexibility

The Commission has established strategies to meet its Turnpike and Act 44/Act 89 Payments in a financially prudent manner. PTC carries out these strategies in accordance with the provisions of Act 44, under the covenants it has entered into with bondholders in the Commission's trust indentures, and through the internal financial management policies it has adopted.

Covenants with Bondholders

PTC's Senior Revenue Bond and Subordinate Revenue Bond indentures feature covenants to bondholders that are based on the need to preserve the Commission's financial flexibility and to provide investors with sufficient security. Key covenants include the pledge of revenues, flow of funds, rate covenant, additional bonds test and maintenance of reserves. The summaries provided below are general in nature and do not provide a definitive or complete description of the relevant indenture terms. For detailed information on these covenants, please review the latest official statements relating to the Commission's Senior Revenue Bonds (available at https://emma.msrb.org/P21638076-P21261104-P21687021.pdf) and Subordinate Revenue Bonds (available at: https://emma.msrb.org/P21676214-P21289895-P21719662.pdf).

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 Bond investors, 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 toll 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 Commission Payment Account 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.

Commission Policy Targets. While the rate covenant provides an important level of protection to bondholders, the PTC also targets certain debt service coverage ratios as part of its broader financial management policies. For Senior Revenue Bonds, the Commission targets a net revenue to debt service ratio of at least 2.0x, well above the 1.30x rate covenant. In addition, the Commission targets a debt service coverage ratio of at least 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 could result in a downgrade of the PTC's debt, increasing its borrowing costs and limiting its financial flexibility.

Additional Bonds Test. To provide additional protection to bond holders, additional issuance is subject to following additional bonds tests:

- 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 the 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 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. With the passage of Act 89, the Commission no longer issues Subordinate Special Revenue Bonds to finance Act 44/Act 89 Payments, and with the reduction in the Commission's Act 44/Act 89 Payments, no future Subordinate Revenue Bond issuance is anticipated for this purpose.

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 and Subordinate 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 Reserve Sub-Account equal to one half maximum annual debt service. Given the strong coverage levels the Commission has achieved and plans to maintain, there is a low likelihood that such funds would be drawn upon.

Operations, Maintenance and Capital Improvements. The Commission commits to an inspection of the Turnpike every three years by an independent engineering consultant to determine whether it is maintained in a state of good repair and to make recommendations for revisions or additions to the Commission's capital improvement program. On or before May 31st of each year, the Commission will adopt an annual operating budget. Prior to adopting the budget, the Commission will provide it to a consulting engineer to provide comments on the proposed budget. At the same time, the Commission adopts its annual budget, it will also approve a capital budget that establishes its capital improvement program for the next ten years. Similar to the operating budget, the capital budget is provided to the consulting engineer for review and comment. The Commission adopted its Fiscal 2024 operating budget and its ten-year capital budget for Fiscal 2024-2033, on May 2, 2023.

Financial Management Policies

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

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

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 maintain bond ratings that minimize borrowing costs and preserve market access. 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.

Continuing Disclosure Policy. In addition to regular communications with bond rating agencies, the Commission maintains its continuing disclosure obligations by filing the requisite notices and information with the Municipal Securities Rulemaking Board's Electronic Municipal Marketplace Access system ("EMMA"); keeping investors informed about the Commission's current financial and operating conditions. The Commission has adopted both a Continuing Disclosure Policy and a Post Issuance Compliance Policy, and also maintains an investor relations page on its website where it provides certain additional information (see https://www.paturnpike.com/business/investor_relations.aspx).

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

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

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

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

Investment Policy and Guidelines. PTC's Investment Policy and Guidelines govern the Commission's investment of cash assets and the Investment Policy and Guidelines were updated in February 2019. 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 2024 Financial Plan

Fiscal 2024 Financial Plan

PTC's Fiscal 2024 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, and liquidity requirements. Exhibits 4 and 5 show the Commission's financial plan for Fiscal 2023 and 2024.

Exhibit 4

Projected Fiscal 2024 Financial Plan($ 000s), Fiscal Year End May 31

	2023	2024
Turnpike Operating Income		
Adjusted Gross Toll Revenues (+)	1,540,401	1,590,007
Gross Non-Toll Revenues (+)	47,680	48,157
Gross Operating Revenues (+)	1,588,081	1,638,164
Operating Expense (-)	365,000	437,741
Interest Income (Senior DSRF and GRF earnings) (+)	20,438	20,540
Net Turnpike Revenues Before Debt Service	1,243,519	1,220,963
Senior Turnpike Revenue Bond Debt Service (-)	372,520	433,012
Net Income Before Capital Expense and General Reserve	870,999	787,951
Capital Funding		
Construction Fund Beginning Balance	311,939	64,667
Newly Sized Senior Bond Proceeds (+)	250,000	421,426
Federal Fund Reimb. (+)	-	-
PAYGO Contribution (+)	222,518	250,000
Additional PAYGO Transfer from Gen. Res. Fund (+)	46,500	-
Supplemental Capital Fund Contri. (+)	-	159,728
Capital Expenditure (-)	776,789	895,821
Reconciliation (+)	10,499	-
Construction Fund Ending Balance	64,667	-
Cash Balances		
Cash Beginning Balance (excl. Liquidity)	287,156	227,115
Net Income (+)	870,999	787,951
PAYGO (-)	222,518	250,000
Additional Cash Payments for OPEB, DSRF, Defeasance (-)	30,727	-
Additional PAYGO Transfer to Res. Main. Fund for Capital Funding (-)	46,500	-
Transfer to Supplemental Capital Fund (-)	73,000	-
Other Transfers (-)	24,200	-
Reconciliation (+)	(95,285)	-
Liquidity Requirement Cashflow Set-aside (-)	8,450	5,008
Subordinate and Sub. Special Revenue Bonds Int. Earnings (+)	7,804	7,843
Subordinate Bonds Debt Service (-)	334,737	348,311
Subordinate Special Revenue Bonds Debt Service (-)	53,427	56,583
Net Funds Remaining Before Act 44 Payments	277,115	363,007
Liquidity Balance	158,808	163,816
Debt Service Coverage Ratios		
Senior Lien		
Pledged Revenues	1,243,519	1,220,963
Debt Service	372,520	433,012
Coverage	3.34 x	2.82 x
Subordinate Lien		
Pledged Revenues	1,250,826	1,228,307
Debt Service	707,257	781,323
Coverage	1.77 x	1.57 x
Subordinate Special Revenue Lien		
Pledged Revenues	1,251,323	1,228,806
Debt Service	760,684	837,906
Coverage	1.64 x	1.47 x

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

Exhibit 5
Projected Fiscal 2024 Financial Plan
($ 000s), Fiscal Year End May 31

	2023	2024
Act 44 Payment Sources		
Net Funds Remaining Before Act 44 Payments	277,115	363,007
Subordinate Bond Proceeds	-	-
Act 44 Payments		
Transit Capital/Other Payments	25,000	25,000
Transit Capital/Other Payments Sources		
Turnpike Cash	25,000	25,000
Tax-Exempt Subordinate Bond Proceeds	-	-
Transit Capital/Other Total Sources	25,000	25,000
Transit Operations Payments	25,000	25,000
Transit Operations Sources		
Turnpike Cash	25,000	25,000
Transit Operations Total Sources	25,000	25,000
Total Act 44 Payments	50,000	50,000
Total Act 44 Sources	50,000	50,000
Remaining Turnpike Cash	227,115	313,007
General Reserve Fund/Liquidity Requirement	385,923	476,823
Supplemental Capital Fund	159,728	-
Gen. Res. Fund/Liquidity Req. + Suppl. Capital Fund	545,651	476,823

The Fiscal 2024 Financial Plan and the long-term financial plan was developed based on the following assumptions and methodologies.

Revenue Forecasting

CDM Smith, PTC's traffic and revenue consultant, developed a full investment grade traffic and revenue forecast for the Turnpike in May 2023 to account for the annual toll increases implemented through 2023, planned additional increases, updated econometric analysis, modifications to E-ZPass and Toll By Plate users, as well as normalization of traffic trends post the COVID-19 pandemic (the "2023 IG Traffic Study"). Based on the advice of CDM Smith, a full investment grade traffic and revenue forecast had not been developed since 2018. In addition to adjustments in macroeconomic conditions, the 2023 IG Traffic Study reflects CDM Smith's assessment of the impact of a potential recession, AET user behaviors as well as long-term implications of the COVID-19 pandemic and related socio-economic changes that impact traffic trends.

A detailed discussion of these updates and CDM Smith's assessment can be reviewed in the 2023 IG Traffic Study which is available on the Commission's investor relations site.

Estimated Toll Rates, Tolls and Other Revenues

Fiscal 2024 toll revenues reflect the full year impact of the toll increase implemented in January 2023 with an adjustment yielding an average toll rate increase of 5% as well as a partial year impact from an anticipated 5% toll increase in January of 2024. Toll revenues are projected to increase by 3.2% to $1.59 billion in Fiscal 2024. Other PTC revenues, primarily consisting of ETC related fees, lease and rental fees and concession fees, as well as interest income, result in total projected revenues of approximately $1.7 billion for Fiscal 2024.

PTC will continue to review and refine its Turnpike tolling strategies and revenue projections based on its traffic consultants' assessment of recent economic conditions, the continued recovery from the impacts of the COVID-19 pandemic 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 needs and Act 44/Act 89 Payments, with the implementation of an equitable toll rate. 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.

Operating, Capital and Other Expenditures

For Fiscal 2024, the Commission's operating expenses are budgeted to be approximately 3% higher than Fiscal 2023 budget levels at $437.7 million compared to $425 million in Fiscal 2023. The cost for employee benefits in Fiscal 2024 is expected to decline $6.7 million, or 7% from Fiscal 2023. For the remaining operating expenses under the control of the Commission, budget amounts increased by $16.7 million, or 6.2%, in Fiscal 2024 with increased spending on information technology, maintenance and service centers responsible for a majority of the increase.

Capital expenditures for the 2024 Ten Year Capital Plan are budgeted to be $895.8 million for Fiscal 2024, a more than $220 million (or 33%) increase over the budgeted amount for Fiscal 2024 from the Fiscal 2023 Ten Year Capital Plan.

During the course of the fiscal year, the Commission will evaluate updated pension contribution assumptions provided by the State Employees' Retirement System and funding strategies to manage OPEB obligations as well as continue to identify, evaluate and implement measures that provide recurring savings and operating efficiencies that continue to control future cost growth.

Debt service payments on the Commission's Senior Revenue Bonds for Fiscal 2024 are projected to be $433 million. Combined Subordinate Revenue Bond and Subordinate Special Revenue Bond debt service is estimated to equal $405 million. Compared to the Fiscal 2024 estimate shown in the Fiscal 2023 Financial Plan, total debt service costs for all three liens is expected to be 0.2% higher than previously projected.

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

Fiscal 2024 represents the second year where the Commission's Act 44/89 Obligation has been reduced to $50 million. As required, the Fiscal 2024 Plan reflects the Commission funding the full payment from cash resources.

Planned Borrowings

To meet its Fiscal 2024 capital expenditures, PTC expects to utilize $65 million of proceeds from previously issued series of bonds, $250 million in pay-as-you-go funding, $421.4 million in additional Senior Revenue Bond proceeds as well as $159.7 million from the Supplemental Capital Fund. Pay-as-you-go funding will be deployed to manage leverage and ensure financial flexibility. Depending upon market conditions, PTC may refund additional outstanding debt for savings.

For Senior Revenue Bond issuance, the bonds are assumed to be current interest, fixed rate bonds with a 30-year final maturity amortizing on a level debt service basis. Senior Revenue Bond issuance assumes the current market 'AAA' MMD Index with an additional 75 basis point market rate cushion and an 80 basis point credit spread. The bonds are expected to be issued with 5% coupons and a ten year-par call. See "VI. Long-Range Financial Plan – Financing Guidelines" for additional discussion of bonding assumptions.

No additional Subordinate Revenue Bond or Subordinate Special Revenue Bond issuances are assumed for Fiscal 2024.

Based on the above assumptions for revenues, operations and maintenance expense and debt service, Fiscal 2024 debt service coverage of the Commission's Senior Revenue Bonds is expected to be 2.82x, 1.57x on the Subordinate Revenue Bonds, and 1.47x on the Subordinate Special Revenue Bonds.

General Reserve Fund and Supplemental Capital Fund

In compliance with PTC's Liquidity Standard Policy, the Fiscal 2024 Financial Plan assumes that Commission retains a liquidity balance equal to at least 10% of annual budgeted revenues. PTC expects to exceed this requirement with an estimated ending balance for Fiscal 2024 of $477 million, which includes a $164 million liquidity level set aside in the General Reserve Fund.

Given the increased capital expenditures in Fiscal 2024, the Commission intends to apply the full balance of the Supplemental Capital Fund to support capital projects, resulting in no ending balance, however, the Commission intends to maintain the fund and defer draws if capital spending slows or does not meet the current estimate.

Financing Initiatives

The Commission continues to successfully navigate through an evolving capital markets environment 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:

- Continue the use of traditional fixed rate current interest bonds.
- Increasing the use of pay-as-you-go capital to reduce future debt issuance and leverage.
- Continually monitor interest rates to maximize the opportunity to both current and advance refund higher interest rate debt with lower interest rate debt.
- 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 Act 44/Act 89 Payments.
- Update financial management policies, as needed, to better reflect changing market conditions and Turnpike and Act 44/Act 89 Payments.
- Pursue innovative financing strategies that may allow the Commission to take advantage of flexible debt repayment terms and favorable borrowing rates.

VI. Long-Range Financial Plan

Long-Range Financial Plan

This section sets forth the assumptions and results of the PTC's Act 44 long-range financial plan to identify how the Commission can meet annual Turnpike obligations and Act 44/Act 89 Payments 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 next three decades-plus. Nevertheless, the Commission has developed a set of assumptions based on current 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, and insights from the May 2023 IG Traffic Study regarding traffic and volume forecasts.
- The Commission's goals to contain operating and maintenance expense growth.
- The Turnpike's capital needs under its near to medium term proposed ten-year capital plan and a sustained level of spending thereafter adjusted for inflation.
- Required Act 44/Act 89 Payments of $50 million annually.
- The mix of debt and pay-as-you-go financing to meet Turnpike and Act 44 needs and maintenance of required liquidity levels.

Toll Revenues

The long-range financial plan reflects the Commission's commitment to operate and maintain its toll facilities, support a Turnpike capital investment program at levels consistent with the adopted ten-year plan and spending levels adjusted for inflation, and fully fund its Act 44/Act 89 Payments. To meet these operating, capital and Act 44/Act 89 Payment obligations and maintain appropriate coverage and liquidity ratios, the financial plan assumes Turnpike traffic volumes and toll rates revenues will increase at levels sufficient to comply with these parameters. The Fiscal 2024 Financial Plan assumes annual toll increase of 5% in Fiscal 2024 and 2025, with the increases then declining to 3% annually by Fiscal 2028. This toll plan allows the Commission to maintain debt service coverage ratios of at least 2.0x on annual debt service for its Senior Revenue Bonds, 1.30x on combined debt service for its 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. As part of the Act 44 financial planning process, the Commission will continue to annually review underlying economic conditions and traffic to establish toll rates to meet its goals.

Operations and Maintenance Expenses

Projected operating expenses are based on PTC's goal to contain annual operations and maintenance cost growth to 3% through 2026, 2.5% in 2027, and 2% annually thereafter. In addition to operating the Turnpike, these expenses include pension contributions as required by the State Employees Retirement System and funding OPEB obligations.

Capital Expenses

The financial plan assumes the Turnpike's proposed $7.7 billion rolling ten-year capital plan through Fiscal 2033. With the decrease in the Commission's Act 44/Act 89 Payments, the Commission is continuing to focus on System capital needs. To fund the $7.7 billion Fiscal 2024 Ten Year Capital Plan, the Commission will have to commit $3.3 billion in pay-as-you-go funding, $4.14 billion in additional Senior Revenue Bond proceeds, $40 million in federal funds, $159.7 million from the Supplemental Capital Fund and $64.7 million in proceeds from previously issued series of bonds. The additional bond proceeds are assumed to be funded by issuing an aggregate par amount of $4.46 billion of Senior Revenue Bonds between Fiscal 2024 and Fiscal 2033.

Although 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 System in a state of good repair beyond the current ten-year plan. The financial plan assumes a sustained level of increased annual capital investment, with a long term increase of 2% annually beginning in 2034, reflecting inflationary increases. Over the Fiscal 2024-2057 period, total capital spending is estimated to be $29.7 billion with $4.7 billion of the long-term capital program expected to be paid from new bond proceeds raised from issuing a par amount of $5.1 billion of Senior Revenue Bonds between Fiscal 2024 - 2037. Pay-as-you-go funding is generally increasing while the debt contribution declines. All capital funding after Fiscal 2037 is from cash resources. Through 2057, additional Senior Revenue Bond proceeds are expected to fund 16% of the Turnpike's capital needs.

Act 44/Act 89 Payments

PTC will meet its Act 44/Act 89 Payments of $50 million annually.

Financing Guidelines

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

Turnpike financial obligations are accounted for separately to clearly define the flow of Turnpike resources to Turnpike operating expenses, capital expenses, debt service and Act 44/Act 89 Payments. 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. After meeting the Turnpike General Reserve Fund policy where the balance equals at least 10% of that fiscal year's revenues, a portion of the remaining revenues are used to supplement pay-as-you-go capital or for Act 44 purposes, either directly (through pay-as-you-go contributions) or indirectly (through debt service payments on Subordinate Revenue Bonds). Contributions from the Turnpike General Reserve Fund to fund $50 million in Act 44/Act 89 Payments annually through Fiscal 2057 are expected.

- The Senior Revenue Bonds reflect the following structural assumptions:

- Base yields reflect current 'AAA' MMD rates with an additional 75 basis point market rate cushion.
- To account for the tax-exempt Senior Revenue Bonds credit spread over 'AAA' MMD rates, an additional 80 basis points is assumed. The Senior Revenue Bonds are assumed to be uninsured.
- The Senior Revenue Bonds feature a debt service reserve fund equal to aggregate maximum annual debt service, but no greater than 10% of proceeds to comply with IRS tax exempt requirements.
- Issuance costs include $11 per $1000 of par for underwriting and other issuance expenses.
- Current interest bonds with 5% coupons are assumed for each issuance with a ten-year par call.
- Each issuance amortizes over thirty years with a level debt service structure.
- 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.

Financial Plan Results

During the course of the financial plan, the Commission is projected to generate sufficient resources to operate and maintain the Turnpike, provide for its capital investment needs to ensure the System is maintain in a state of good repair, meet debt service requirements, fund required Act 44/Act 89 Payments and maintain internal liquidity. The Appendix presents the financial plan annual cash flow.

Given capital needs and Act 44/Act 89 Payments, the Commission is projected to continue to regularly access the capital markets to finance its needs. Over the Fiscal 2024 to 2057 plan period, PTC is projected to issue $5.1 billion of Senior Revenue Bonds.

Exhibit 6 presents both historic and projected Turnpike net revenues relative to annual debt service obligations. Projected toll revenues are estimated to provide sufficient debt service coverage. Future Senior Revenue Bond debt service coverage is at least 2.52x and increasing, which should enable the Turnpike to retain its current mid-investment grade bond ratings. Future Subordinate Revenue Bond debt service coverage is lower, but at least 1.45x, while Subordinate Special Revenue Bond debt service coverage is no less than 1.37x. Both coverage ratios continue to increase throughout the plan.

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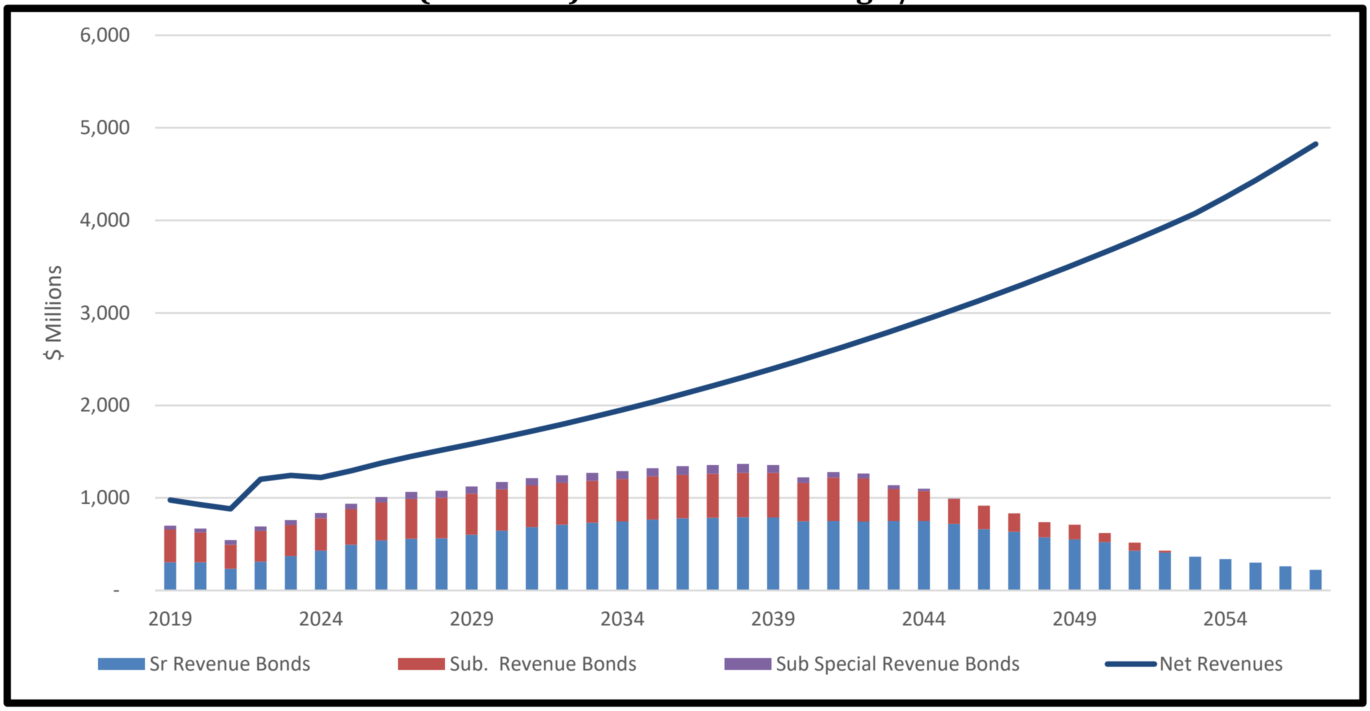
Exhibit 6
Long Range Financial Plan
Turnpike Net Revenues and Debt Service
($millions) Fiscal Years Ending 5/31



To provide added protection, the financial plan assumes the Commission maintains at least an aggregate of 10% of annual gross revenues deposited in the General Reserve Fund, Supplemental Capital 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 thirty-four year period. Downside risks to the financial plan include, but are not limited to, 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.

VI. Appendices

Appendices

A. Financial Plan Cash Flows

B. Financial Management Polices

A. Financial Plan Cash Flows

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

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Turnpike Operating Income										
Adjusted Gross Toll Revenues (+)	1,247,779	1,190,419	1,459,916	1,540,401	1,590,007	1,674,754	1,771,537	1,853,967	1,931,352	2,006,626
Gross Non-Toll Revenues (+)	36,004	39,753	43,662	47,680	48,157	48,639	49,125	49,616	50,112	50,613
Gross Operating Revenues (+)	1,283,783	1,230,172	1,503,578	1,588,081	1,638,164	1,723,393	1,820,662	1,903,583	1,981,464	2,057,239
Operating Expense (-)	376,164	361,822	312,258	365,000	437,741	450,873	464,399	476,009	485,530	495,240
Interest Income (Senior Lien and GRF earnings) (+)	20,605	13,391	12,534	20,438	20,540	20,643	20,746	20,850	20,954	21,059
Net Turnpike Revenues Before Debt Service	928,224	881,741	1,203,854	1,243,519	1,220,963	1,293,163	1,377,009	1,448,424	1,516,888	1,583,058
Senior Turnpike Revenue Bond Debt Service	306,338	234,905	311,234	372,520	433,012	493,558	541,392	557,406	565,726	601,541
Net Income Before Capital Expense and General Reserve	621,886	646,836	892,620	870,999	787,951	799,605	835,617	891,017	951,162	981,517
Capital Funding										
Construction Fund Beginning Balance	129,262	193,315	122,811	311,939	64,667	-	-	-	-	-
Newly Sized Senior Bond Proceeds (+)	488,400	421,794	506,950	250,000	421,426	588,330	549,831	439,944	432,955	362,879
Federal Fund Reimb. (+)	5,697	1,239	11,232	-	-	-	-	-	-	-
PAYGO Contribution (+)	129,569	59,100	210,718	222,518	250,000	250,000	250,000	275,000	325,000	350,000
Additional PAYGO Transfer from Gen. Res. Fund (+)	-	-	19,605	46,500	-	-	-	-	-	-
Supplemental Capital Fund Contri. (+)	-	-	-	-	159,728	-	-	-	-	-
Capital Expenditure (-)	554,861	552,868	529,880	776,789	895,821	838,330	799,831	714,944	757,955	712,879
Reconciliation (+)	(4,751)	231	(29,497)	10,499	-	-	-	-	-	-
Construction Fund Ending Balance	193,315	122,811	311,939	64,667	-	-	-	-	-	-
Cash Balances										
Cash Beginning Balance (excl. Liquidity)	257,735	275,953	329,029	287,156	227,115	313,007	366,724	431,353	490,314	553,984
Net Income (+)	621,886	646,836	892,620	870,999	787,951	799,605	835,617	891,017	951,162	981,517
PAYGO Contribution (-)	129,569	59,100	210,718	222,518	250,000	250,000	250,000	275,000	325,000	350,000
Additional Cash Payments for OPEB, DSRF, Defeasance (-)	51,254	143,115	17,365	30,727	-	-	-	-	-	-
Additional Transfer to Res. Main. Fund for Capital Funding (-)	-	-	19,605	46,500	-	-	-	-	-	-
Supplemental Capital Fund Deposit (-)	-	-	107,000	73,000	-	-	-	-	-	-
Other Transfers (-)	-	-	3,600	24,200	-	-	-	-	-	-
Reconciliation (+)	32,523	(57,392)	(143,080)	(95,285)	-	-	-	-	-	-
Liquidity Requirement Cashflow Set-aside (-)	-	-	27,341	8,450	5,008	8,523	9,727	8,292	7,788	7,578
FRN Redemptions	-	-	-	-	-	-	-	-	-	-
Subordinate Revenue Bonds Interest Earnings (+)	6,758	5,514	5,142	7,307	7,344	7,380	7,417	7,454	7,492	7,529
Subordinate Special Revenue Bonds Interest Earnings (+)	638	462	441	497	499	502	505	507	510	512
Cash Ending Balance (excl. Liquidity)	738,717	669,158	698,524	665,279	767,901	861,971	950,535	1,047,039	1,116,690	1,185,965
Liquidity Balance	128,378	123,017	150,358	158,808	163,816	172,339	182,066	190,358	198,146	205,724
Cash Ending Balance (excl. Liquidity)	738,717	669,158	698,524	665,279	767,901	861,971	950,535	1,047,039	1,116,690	1,185,965
Subordinate Bonds Debt Service	320,707	261,311	331,983	334,737	348,311	387,333	410,740	430,785	435,237	445,231
Subordinate Special Revenue Bonds Debt Service	42,057	48,818	49,385	53,427	56,583	57,914	58,443	75,939	77,470	79,247
Net Funds Remaining Before Act 44 Payments	375,953	359,029	317,156	277,115	363,007	416,724	481,353	540,314	603,984	661,487

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

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Act 44 Payment Sources										
Net Funds Remaining Before Act 44 Payments	375,953	359,029	317,156	277,115	363,007	416,724	481,353	540,314	603,984	661,487
Subordinate Bond Proceeds	800,000	420,000	420,000	-	-	-	-	-	-	-
Act 44 Payments										
Transit Capital/Other Payments	850,000	425,000	425,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Transit Capital/Other Payments Sources										
Turnpike Cash	50,000	5,000	5,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Tax-Exempt Subordinate Bond Proceeds	800,000	420,000	420,000	-	-	-	-	-	-	-
Transit Capital/Other Total Sources	850,000	425,000	425,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Transit Operations Payments	50,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Transit Operations Sources										
Turnpike Cash	50,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Transit Operations Total Sources	50,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Total Act 44 Payments	900,000	450,000	450,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Total Act 44 Sources	900,000	450,000	450,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Remaining Turnpike Cash	275,953	329,029	287,156	227,115	313,007	366,724	431,353	490,314	553,984	611,487
Turnpike General Reserve Fund (Remaining Cash/Liquidity)	404,331	452,046	437,514	385,923	476,823	539,063	613,419	680,672	752,130	817,211
Supplemental Capital Fund										
Starting Balance	-	-	-	94,709	159,728	-	-	-	-	-
Deposits (+)	-	-	107,000	73,000	-	-	-	-	-	-
Draws (-)	-	-	12,337	11,847	159,728	-	-	-	-	-
Reconciliation (+)	-	-	45	3,867	-	-	-	-	-	-
Ending Balance	-	-	94,709	159,728	-	-	-	-	-	-
Gen. Res. Fund/Liquidity Req. + Suppl. Capital Fund	404,331	452,046	532,223	545,651	476,823	539,063	613,419	680,672	752,130	817,211
Coverage Calculations										
Mainline Debt Service Coverage										
Senior Lien										
Pledged Revenues	928,224	881,741	1,203,854	1,243,519	1,220,963	1,293,163	1,377,009	1,448,424	1,516,888	1,583,058
Debt Service	(306,338)	(234,905)	(311,234)	(372,520)	(433,012)	(493,558)	(541,392)	(557,406)	(565,726)	(601,541)
Coverage	3.03 x	3.75 x	3.87 x	3.34 x	2.82 x	2.62 x	2.54 x	2.60 x	2.68 x	2.63 x
Subordinate Lien										
Pledged Revenues	934,982	887,255	1,208,996	1,250,826	1,228,307	1,300,543	1,384,426	1,455,878	1,524,380	1,590,587
Debt Service	(627,045)	(496,216)	(643,216)	(707,257)	(781,323)	(880,891)	(952,132)	(988,191)	(1,000,963)	(1,046,771)
Coverage	1.49 x	1.79 x	1.88 x	1.77 x	1.57 x	1.48 x	1.45 x	1.47 x	1.52 x	1.52 x
Subordinate Special Revenue Lien										
Pledged Revenues	935,620	887,717	1,209,437	1,251,323	1,228,806	1,301,045	1,384,931	1,456,385	1,524,890	1,591,099
Debt Service	(669,102)	(545,034)	(692,602)	(760,684)	(837,906)	(938,805)	(1,010,575)	(1,064,131)	(1,078,433)	(1,126,019)
Coverage	1.40 x	1.63 x	1.75 x	1.64 x	1.47 x	1.39 x	1.37 x	1.37 x	1.41 x	1.41 x

($000) Fiscal Year End 5/31

	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
Turnpike Operating Income										
Adjusted Gross Toll Revenues (+)	2,084,498	2,164,752	2,247,655	2,334,306	2,425,141	2,518,987	2,615,812	2,715,618	2,818,664	2,925,045
Gross Non-Toll Revenues (+)	51,119	51,630	52,146	52,668	53,195	53,727	54,264	54,806	55,355	55,908
Gross Operating Revenues (+)	2,135,617	2,216,382	2,299,801	2,386,974	2,478,336	2,572,714	2,670,076	2,770,424	2,874,019	2,980,953
Operating Expense (-)	505,145	515,248	525,553	536,064	546,785	557,721	568,875	580,253	591,858	603,695
Interest Income (Senior Lien and GRF earnings) (+)	21,164	21,270	21,376	21,483	21,590	21,698	21,807	21,916	22,026	22,136
Net Turnpike Revenues Before Debt Service	1,651,636	1,722,404	1,795,625	1,872,393	1,953,141	2,036,691	2,123,007	2,212,088	2,304,186	2,399,394
Senior Turnpike Revenue Bond Debt Service	648,112	684,226	710,789	733,069	744,824	767,830	779,026	785,733	791,270	789,616
Net Income Before Capital Expense and General Reserve	1,003,524	1,038,178	1,084,836	1,139,324	1,208,317	1,268,861	1,343,981	1,426,354	1,512,916	1,609,778
Capital Funding										
Construction Fund Beginning Balance	-	20,000	20,000	-	-	-	-	-	-	-
Newly Sized Senior Bond Proceeds (+)	425,997	393,875	262,293	258,874	223,051	187,513	127,263	67,308	-	-
Federal Fund Reimb. (+)	20,000	20,000	-	-	-	-	-	-	-	-
PAYGO Contribution (+)	350,000	350,000	425,000	450,000	500,000	550,000	625,000	700,000	782,654	798,307
Additional PAYGO Transfer from Gen. Res. Fund (+)	-	-	-	-	-	-	-	-	-	-
Supplemental Capital Fund Contri. (+)	-	-	-	-	-	-	-	-	-	-
Capital Expenditure (-)	775,997	763,875	707,293	708,874	723,051	737,513	752,263	767,308	782,654	798,307
Reconciliation (+)	-	-	-	-	-	-	-	-	-	-
Construction Fund Ending Balance	20,000	20,000	-	-	-	-	-	-	-	-
Cash Balances										
Cash Beginning Balance (excl. Liquidity)	611,487	691,273	799,986	876,673	978,605	1,091,123	1,205,037	1,309,418	1,412,009	1,511,712
Net Income (+)	1,003,524	1,038,178	1,084,836	1,139,324	1,208,317	1,268,861	1,343,981	1,426,354	1,512,916	1,609,778
PAYGO Contribution (-)	350,000	350,000	425,000	450,000	500,000	550,000	625,000	700,000	782,654	798,307
Additional Cash Payments for OPEB, DSRF, Defeasance (-)	-	-	-	-	-	-	-	-	-	-
Additional Transfer to Res. Main. Fund for Capital Funding (-)	-	-	-	-	-	-	-	-	-	-
Supplemental Capital Fund Deposit (-)	-	-	-	-	-	-	-	-	-	-
Other Transfers (-)	-	-	-	-	-	-	-	-	-	-
Reconciliation (+)	-	-	-	-	-	-	-	-	-	-
Liquidity Requirement Cashflow Set-aside (-)	7,838	8,077	8,342	8,717	9,136	9,438	9,736	10,035	10,359	10,693
FRN Redemptions	-	-	-	-	-	-	-	-	-	-
Subordinate Revenue Bonds Interest Earnings (+)	7,567	7,567	7,567	7,567	7,567	7,567	7,567	7,567	7,567	7,567
Subordinate Special Revenue Bonds Interest Earnings (+)	515	515	515	515	515	515	515	515	515	515
Cash Ending Balance (excl. Liquidity)	1,265,255	1,379,457	1,459,562	1,565,362	1,685,868	1,808,628	1,922,364	2,033,819	2,139,994	2,320,571
Liquidity Balance	213,562	221,638	229,980	238,697	247,834	257,271	267,008	277,042	287,402	298,095
Cash Ending Balance (excl. Liquidity)	1,265,255	1,379,457	1,459,562	1,565,362	1,685,868	1,808,628	1,922,364	2,033,819	2,139,994	2,320,571
Subordinate Bonds Debt Service	446,362	450,295	451,604	453,181	458,910	466,086	470,055	475,803	479,866	481,767
Subordinate Special Revenue Bonds Debt Service	77,619	79,176	81,285	83,576	85,834	87,504	92,892	96,007	98,415	83,156
Net Funds Remaining Before Act 44 Payments	741,273	849,986	926,673	1,028,605	1,141,123	1,255,037	1,359,418	1,462,009	1,561,712	1,755,648

($000) Fiscal Year End 5/31

	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
Act 44 Payment Sources										
Net Funds Remaining Before Act 44 Payments	741,273	849,986	926,673	1,028,605	1,141,123	1,255,037	1,359,418	1,462,009	1,561,712	1,755,648
Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Act 44 Payments										
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 Payments Sources										
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 Capital/Other Total Sources	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
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 Sources										
Turnpike Cash	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
Total Act 44 Payments	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Total Act 44 Sources	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Remaining Turnpike Cash	691,273	799,986	876,673	978,605	1,091,123	1,205,037	1,309,418	1,412,009	1,511,712	1,705,648
Turnpike General Reserve Fund (Remaining Cash/Liquidity)	904,835	1,021,624	1,106,654	1,217,303	1,338,956	1,462,309	1,576,425	1,689,052	1,799,114	2,003,744
Supplemental Capital Fund										
Starting Balance	-	-	-	-	-	-	-	-	-	-
Deposits (+)	-	-	-	-	-	-	-	-	-	-
Draws (-)	-	-	-	-	-	-	-	-	-	-
Reconciliation (+)	-	-	-	-	-	-	-	-	-	-
Ending Balance	-	-	-	-	-	-	-	-	-	-
Gen. Res. Fund/Liquidity Req. + Suppl. Capital Fund	904,835	1,021,624	1,106,654	1,217,303	1,338,956	1,462,309	1,576,425	1,689,052	1,799,114	2,003,744
<u>Coverage Calculations</u>										
Mainline Debt Service Coverage										
Senior Lien										
Pledged Revenues	1,651,636	1,722,404	1,795,625	1,872,393	1,953,141	2,036,691	2,123,007	2,212,088	2,304,186	2,399,394
Debt Service	(648,112)	(684,226)	(710,789)	(733,069)	(744,824)	(767,830)	(779,026)	(785,733)	(791,270)	(789,616)
Coverage	2.55 x	2.52 x	2.53 x	2.55 x	2.62 x	2.65 x	2.73 x	2.82 x	2.91 x	3.04 x
Subordinate Lien										
Pledged Revenues	1,659,203	1,729,971	1,803,192	1,879,960	1,960,708	2,044,258	2,130,574	2,219,655	2,311,753	2,406,961
Debt Service	(1,094,474)	(1,134,522)	(1,162,393)	(1,186,250)	(1,203,735)	(1,233,917)	(1,249,081)	(1,261,537)	(1,271,136)	(1,271,383)
Coverage	1.52 x	1.52 x	1.55 x	1.58 x	1.63 x	1.66 x	1.71 x	1.76 x	1.82 x	1.89 x
Subordinate Special Revenue Lien										
Pledged Revenues	1,659,718	1,730,486	1,803,707	1,880,475	1,961,223	2,044,773	2,131,089	2,220,170	2,312,268	2,407,476
Debt Service	(1,172,093)	(1,213,697)	(1,243,677)	(1,269,826)	(1,289,569)	(1,321,421)	(1,341,973)	(1,357,543)	(1,369,552)	(1,354,539)
Coverage	1.42 x	1.43 x	1.45 x	1.48 x	1.52 x	1.55 x	1.59 x	1.64 x	1.69 x	1.78 x

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

	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049
Turnpike Operating Income										
Adjusted Gross Toll Revenues (+)	3,034,877	3,148,154	3,264,777	3,384,375	3,506,782	3,632,792	3,762,503	3,896,003	4,033,400	4,174,791
Gross Non-Toll Revenues (+)	56,467	57,032	57,602	58,178	58,760	59,348	59,941	60,540	61,146	61,757
Gross Operating Revenues (+)	3,091,344	3,205,186	3,322,379	3,442,553	3,565,542	3,692,140	3,822,444	3,956,543	4,094,546	4,236,548
Operating Expense (-)	615,769	628,084	640,646	653,459	666,528	679,859	693,456	707,325	721,471	735,901
Interest Income (Senior Lien and GRF earnings) (+)	22,246	22,358	22,469	22,582	22,695	22,808	22,922	23,037	23,152	23,268
Net Turnpike Revenues Before Debt Service	2,497,822	2,599,459	2,704,203	2,811,676	2,921,709	3,035,089	3,151,910	3,272,255	3,396,226	3,523,915
Senior Turnpike Revenue Bond Debt Service	749,462	750,565	743,888	750,188	751,004	719,996	662,397	633,460	574,034	551,145
Net Income Before Capital Expense and General Reserve	1,748,360	1,848,894	1,960,315	2,061,488	2,170,704	2,315,093	2,489,513	2,638,795	2,822,192	2,972,770
Capital Funding										
Construction Fund Beginning Balance	-	-	-	-	-	-	-	-	-	-
Newly Sized Senior Bond Proceeds (+)	-	-	-	-	-	-	-	-	-	-
Federal Fund Reimb. (+)	-	-	-	-	-	-	-	-	-	-
PAYGO Contribution (+)	814,273	830,559	847,170	864,113	881,396	899,024	917,004	935,344	954,051	973,132
Additional PAYGO Transfer from Gen. Res. Fund (+)	-	-	-	-	-	-	-	-	-	-
Supplemental Capital Fund Contri. (+)	-	-	-	-	-	-	-	-	-	-
Capital Expenditure (-)	814,273	830,559	847,170	864,113	881,396	899,024	917,004	935,344	954,051	973,132
Reconciliation (+)	-	-	-	-	-	-	-	-	-	-
Construction Fund Ending Balance	-	-	-	-	-	-	-	-	-	-
Cash Balances										
Cash Beginning Balance (excl. Liquidity)	1,705,648	2,113,977	2,548,566	3,087,734	3,844,592	4,731,870	5,817,116	7,079,437	8,525,503	10,174,358
Net Income (+)	1,748,360	1,848,894	1,960,315	2,061,488	2,170,704	2,315,093	2,489,513	2,638,795	2,822,192	2,972,770
PAYGO Contribution (-)	814,273	830,559	847,170	864,113	881,396	899,024	917,004	935,344	954,051	973,132
Additional Cash Payments for OPEB, DSRF, Defeasance (-)	-	-	-	-	-	-	-	-	-	-
Additional Transfer to Res. Main. Fund for Capital Funding (-)	-	-	-	-	-	-	-	-	-	-
Supplemental Capital Fund Deposit (-)	-	-	-	-	-	-	-	-	-	-
Other Transfers (-)	-	-	-	-	-	-	-	-	-	-
Reconciliation (+)	-	-	-	-	-	-	-	-	-	-
Liquidity Requirement Cashflow Set-aside (-)	11,039	11,384	11,719	12,017	12,299	12,660	13,030	13,410	13,800	14,200
FRN Redemptions	-	-	-	-	-	-	-	-	-	-
Subordinate Revenue Bonds Interest Earnings (+)	7,567	7,567	7,567	7,567	7,567	7,567	7,567	7,567	7,567	7,567
Subordinate Special Revenue Bonds Interest Earnings (+)	515	515	515	515	515	515	-	-	-	-
Cash Ending Balance (excl. Liquidity)	2,636,777	3,129,010	3,658,074	4,281,174	5,129,684	6,143,362	7,384,162	8,777,045	10,387,411	12,167,363
Liquidity Balance	309,134	320,519	332,238	344,255	356,554	369,214	382,244	395,654	409,455	423,655
Cash Ending Balance (excl. Liquidity)	2,636,777	3,129,010	3,658,074	4,281,174	5,129,684	6,143,362	7,384,162	8,777,045	10,387,411	12,167,363
Subordinate Bonds Debt Service	413,733	470,435	467,240	347,739	323,160	271,069	254,725	201,542	163,054	159,948
Subordinate Special Revenue Bonds Debt Service	59,067	60,009	53,100	38,842	24,654	5,177	-	-	-	-
Net Funds Remaining Before Act 44 Payments	2,163,977	2,598,566	3,137,734	3,894,592	4,781,870	5,867,116	7,129,437	8,575,503	10,224,358	12,007,415

($000) Fiscal Year End 5/31

	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049
Act 44 Payment Sources										
Net Funds Remaining Before Act 44 Payments	2,163,977	2,598,566	3,137,734	3,894,592	4,781,870	5,867,116	7,129,437	8,575,503	10,224,358	12,007,415
Subordinate Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Act 44 Payments										
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 Payments Sources										
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 Capital/Other Total Sources	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
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 Sources										
Turnpike Cash	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
Total Act 44 Payments	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Total Act 44 Sources	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Remaining Turnpike Cash	2,113,977	2,548,566	3,087,734	3,844,592	4,731,870	5,817,116	7,079,437	8,525,503	10,174,358	11,957,415
Turnpike General Reserve Fund (Remaining Cash/Liquidity)	2,423,112	2,869,085	3,419,972	4,188,848	5,088,424	6,186,330	7,461,682	8,921,158	10,583,812	12,381,070
Supplemental Capital Fund										
Starting Balance	-	-	-	-	-	-	-	-	-	-
Deposits (+)	-	-	-	-	-	-	-	-	-	-
Draws (-)	-	-	-	-	-	-	-	-	-	-
Reconciliation (+)	-	-	-	-	-	-	-	-	-	-
Ending Balance	-	-	-	-	-	-	-	-	-	-
Gen. Res. Fund/Liquidity Req. + Suppl. Capital Fund	2,423,112	2,869,085	3,419,972	4,188,848	5,088,424	6,186,330	7,461,682	8,921,158	10,583,812	12,381,070
Coverage Calculations										
Mainline Debt Service Coverage										
Senior Lien										
Pledged Revenues	2,497,822	2,599,459	2,704,203	2,811,676	2,921,709	3,035,089	3,151,910	3,272,255	3,396,226	3,523,915
Debt Service	(749,462)	(750,565)	(743,888)	(750,188)	(751,004)	(719,996)	(662,397)	(633,460)	(574,034)	(551,145)
Coverage	3.33 x	3.46 x	3.64 x	3.75 x	3.89 x	4.22 x	4.76 x	5.17 x	5.92 x	6.39 x
Subordinate Lien										
Pledged Revenues	2,505,389	2,607,026	2,711,770	2,819,243	2,929,276	3,042,656	3,159,477	3,279,822	3,403,793	3,531,482
Debt Service	(1,163,195)	(1,221,001)	(1,211,127)	(1,097,927)	(1,074,164)	(991,065)	(917,122)	(835,002)	(737,088)	(711,092)
Coverage	2.15 x	2.14 x	2.24 x	2.57 x	2.73 x	3.07 x	3.44 x	3.93 x	4.62 x	4.97 x
Subordinate Special Revenue Lien										
Pledged Revenues	2,505,904	2,607,541	2,712,285	2,819,758	2,929,791	3,043,171	3,159,477	3,279,822	3,403,793	3,531,482
Debt Service	(1,222,262)	(1,281,009)	(1,264,227)	(1,136,769)	(1,098,818)	(996,241)	(917,122)	(835,002)	(737,088)	(711,092)
Coverage	2.05 x	2.04 x	2.15 x	2.48 x	2.67 x	3.05 x	3.44 x	3.93 x	4.62 x	4.97 x

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

	2050	2051	2052	2053	2054	2055	2056	2057
Turnpike Operating Income								
Adjusted Gross Toll Revenues (+)	4,320,281	4,469,971	4,623,954	4,782,321	4,973,614	5,172,558	5,379,461	5,594,639
Gross Non-Toll Revenues (+)	62,375	62,999	63,629	64,265	64,908	65,557	66,212	66,874
Gross Operating Revenues (+)	4,382,656	4,532,970	4,687,583	4,846,586	5,038,521	5,238,115	5,445,673	5,661,513
Operating Expense (-)	750,619	765,631	780,944	796,563	812,494	828,744	845,319	862,225
Interest Income (Senior Lien and GRF earnings) (+)	23,384	23,501	23,618	23,737	23,855	23,974	24,094	24,215
Net Turnpike Revenues Before Debt Service	3,655,421	3,790,839	3,930,257	4,073,760	4,249,883	4,433,346	4,624,449	4,823,503
Senior Turnpike Revenue Bond Debt Service	523,908	429,065	408,038	363,852	338,265	302,892	261,641	223,102
Net Income Before Capital Expense and General Reserve	3,131,513	3,361,775	3,522,219	3,709,908	3,911,618	4,130,454	4,362,808	4,600,401
Capital Funding								
Construction Fund Beginning Balance	-	-	-	-	-	-	-	-
Newly Sized Senior Bond Proceeds (+)	-	-	-	-	-	-	-	-
Federal Fund Reimb. (+)	-	-	-	-	-	-	-	-
PAYGO Contribution (+)	992,595	1,012,447	1,032,696	1,053,349	1,074,416	1,095,905	1,117,823	1,140,179
Additional PAYGO Transfer from Gen. Res. Fund (+)	-	-	-	-	-	-	-	-
Supplemental Capital Fund Contri. (+)	-	-	-	-	-	-	-	-
Capital Expenditure (-)	992,595	1,012,447	1,032,696	1,053,349	1,074,416	1,095,905	1,117,823	1,140,179
Reconciliation (+)	-	-	-	-	-	-	-	-
Construction Fund Ending Balance	-	-	-	-	-	-	-	-
Cash Balances								
Cash Beginning Balance (excl. Liquidity)	11,957,415	13,943,038	16,148,270	18,555,851	21,146,509	23,914,517	26,879,106	30,053,335
Net Income (+)	3,131,513	3,361,775	3,522,219	3,709,908	3,911,618	4,130,454	4,362,808	4,600,401
PAYGO Contribution (-)	992,595	1,012,447	1,032,696	1,053,349	1,074,416	1,095,905	1,117,823	1,140,179
Additional Cash Payments for OPEB, DSRF, Defeasance (-)	-	-	-	-	-	-	-	-
Additional Transfer to Res. Main. Fund for Capital Funding (-)	-	-	-	-	-	-	-	-
Supplemental Capital Fund Deposit (-)	-	-	-	-	-	-	-	-
Other Transfers (-)	-	-	-	-	-	-	-	-
Reconciliation (+)	-	-	-	-	-	-	-	-
Liquidity Requirement Cashflow Set-aside (-)	14,611	15,031	15,461	15,900	19,194	19,959	20,756	21,584
FRN Redemptions	-	-	-	-	-	-	-	-
Subordinate Revenue Bonds Interest Earnings (+)	7,567	7,567	7,567	-	-	-	-	-
Subordinate Special Revenue Bonds Interest Earnings (+)	-	-	-	-	-	-	-	-
Cash Ending Balance (excl. Liquidity)	14,089,289	16,284,902	18,629,899	21,196,509	23,964,517	26,929,106	30,103,335	33,491,973
Liquidity Balance	438,266	453,297	468,758	484,659	503,852	523,812	544,567	566,151
Cash Ending Balance (excl. Liquidity)	14,089,289	16,284,902	18,629,899	21,196,509	23,964,517	26,929,106	30,103,335	33,491,973
Subordinate Bonds Debt Service	96,251	86,632	24,048	-	-	-	-	-
Subordinate Special Revenue Bonds Debt Service	-	-	-	-	-	-	-	-
Net Funds Remaining Before Act 44 Payments	13,993,038	16,198,270	18,605,851	21,196,509	23,964,517	26,929,106	30,103,335	33,491,973

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

	2050	2051	2052	2053	2054	2055	2056	2057
Act 44 Payment Sources								
Net Funds Remaining Before Act 44 Payments	13,993,038	16,198,270	18,605,851	21,196,509	23,964,517	26,929,106	30,103,335	33,491,973
Subordinate Bond Proceeds	-	-	-	-	-	-	-	-
Act 44 Payments								
Transit Capital/Other Payments	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Transit Capital/Other Payments Sources								
Turnpike Cash	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-	-
Transit Capital/Other Total Sources	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Transit Operations Payments	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Transit Operations Sources								
Turnpike Cash	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
Total Act 44 Payments	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Total Act 44 Sources	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Remaining Turnpike Cash	13,943,038	16,148,270	18,555,851	21,146,509	23,914,517	26,879,106	30,053,335	33,441,973
Turnpike General Reserve Fund (Remaining Cash/Liquidity)	14,381,304	16,601,567	19,024,609	21,631,168	24,418,369	27,402,918	30,597,903	34,008,124
Supplemental Capital Fund								
Starting Balance	-	-	-	-	-	-	-	-
Deposits (+)	-	-	-	-	-	-	-	-
Draws (-)	-	-	-	-	-	-	-	-
Reconciliation (+)	-	-	-	-	-	-	-	-
Ending Balance	-	-	-	-	-	-	-	-
Gen. Res. Fund/Liquidity Req. + Suppl. Capital Fund	14,381,304	16,601,567	19,024,609	21,631,168	24,418,369	27,402,918	30,597,903	34,008,124
Coverage Calculations								
Mainline Debt Service Coverage								
Senior Lien								
Pledged Revenues	3,655,421	3,790,839	3,930,257	4,073,760	4,249,883	4,433,346	4,624,449	4,823,503
Debt Service	(523,908)	(429,065)	(408,038)	(363,852)	(338,265)	(302,892)	(261,641)	(223,102)
Coverage	6.98 x	8.84 x	9.63 x	11.20 x	12.56 x	14.64 x	17.67 x	21.62 x
Subordinate Lien								
Pledged Revenues	3,662,988	3,798,406	3,937,824	4,073,760	4,249,883	4,433,346	4,624,449	4,823,503
Debt Service	(620,159)	(515,696)	(432,087)	(363,852)	(338,265)	(302,892)	(261,641)	(223,102)
Coverage	5.91 x	7.37 x	9.11 x	11.20 x	12.56 x	14.64 x	17.67 x	21.62 x
Subordinate Special Revenue Lien								
Pledged Revenues	3,662,988	3,798,406	3,937,824	4,073,760	4,249,883	4,433,346	4,624,449	4,823,503
Debt Service	(620,159)	(515,696)	(432,087)	(363,852)	(338,265)	(302,892)	(261,641)	(223,102)
Coverage	5.91 x	7.37 x	9.11 x	11.20 x	12.56 x	14.64 x	17.67 x	21.62 x

B. Financial Management Policies

PA TURNPIKE COMMISSION POLICY *This is a statement of official Pennsylvania Turnpike Policy*		**NUMBER**: 7.03 **APPROVAL DATE**: 04-20-2004 **EFFECTIVE DATE**: 05-05-2004 **REVISED DATE**: 10-02-2018
POLICY SUBJECT: Debt Management	**RESPONSIBLE DEPARTMENT:** Finance and Administration	

A. 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.

B. 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, fund Act 44 obligations 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 primarily 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 of the Commission from the proceeds of long-term financing.

The Commission shall seek to maintain investment grade bond ratings so borrowing costs are minimized and access to credit is preserved. It is imperative that the Commission demonstrates to rating agencies, investors, 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 Electronic Municipal Market Access (EMMA) operated by the Municipal Securities Rulemaking Board (MSRB) 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.

C. 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 or to fund Act 44 Obligations. Generally acceptable uses of bond proceeds can be viewed as items that can be capitalized where possible. 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.

D. 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.

E. 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. The Commission may also issue debt to meet its obligations under Act 44 of 2007.

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.

8. Debt Service Coverage Ratio (DSCR) - The Commission shall continually monitor its outstanding debt for the purpose of determining the DSCR are at or above policy ratios of 2.0x for Senior Revenue Debt, 1.3x for Subordinate Revenue Debt and 1.2x for all toll revenue supported Debt.

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

B. <u>Measurements of Future Flexibility</u>

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."

F. <u>Sale of Bonds:</u>

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.

G. 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.

H. 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.

PA TURNPIKE COMMISSION POLICY *This is a statement of official Pennsylvania Turnpike Policy*		**NUMBER**: 7.01 **APPROVAL DATE**: 08-16-2001 **EFFECTIVE DATE**: 08-31-2011 **REVISED DATE**: 02-05-2019
POLICY SUBJECT: Investment Policy and Guidelines	**RESPONSIBLE DEPARTMENT:** Finance and Administration	

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:

1. <u>Eligible Securities (to the extent permitted by any applicable indenture of trust)</u>

   a. U. S. Treasury Bills, Notes, Bonds, Strips

   b. 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.

   c. 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.

   d. Investment Agreements with a bank, a bank holding company or a financial institution that has outstanding unsecured obligations or uncollateralized long-term debt obligations rated in the "AA" category or better by at least two of the three rating agencies (Standard & Poors, Moody's and Fitch Investor Services).

e. 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

f. 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

g. 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.

h. 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.

i. 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.

j. Corporate Bonds rated “Aa3/AA-” or better by Moody’s and S&P.

k. Asset-Backed Securities rated “AAA” by Moody’s and S&P.

l. 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.

m. 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.

2. Diversification

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

b. 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.

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

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

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

3. 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.

4. <u>Maturity</u>

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.

5. <u>Turnover</u>

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:

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.

PA TURNPIKE COMMISSION POLICY *This is a statement of official Pennsylvania Turnpike Policy*		NUMBER: 7.07 APPROVAL DATE: 05-07-2013 EFFECTIVE DATE: 05-07-2013 REVISED DATE: 10-02-2018
POLICY SUBJECT: **7.07 – Interest Rate Swap Management Policy**	**RESPONSIBLE DEPARTMENT:** **Finance and Administration Department**	

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) latest 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, ISDA March 2013 Dodd-Frank Protocol, or similar agreements to which the Commission may adhere (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, executed, 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 A3/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, 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). In this situation, the terms of the Agreement and the process for entering into the Agreement must be reviewed and approved in advance by legal counsel. The Commission will use best efforts to integrate all Agreements as appropriate. In cases where the Commission is considering non-integration, it will consult legal counsel and its advisors to understand any implications.

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 or the index on variable-rate debt and variable-rate indices used to determine Swap payments.	The Commission will review historical trading differentials between the variable-rate bond rates or indices and the index/variable-rate payments of the Swaps.
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 Swaps indexed to taxable rates such as LIBOR or LIBOR alternatives (SOFR, Fed Funds, etc.).
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 with appropriate sensitivity and historic scenario analysis within the context of the Commission's ratings and termination triggers.
Swap/Bond Maturity Mismatch / 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. The Commission will consider any mismatch between bonds and Swaps that may create rollover/termination risk if the Swap maturity exceeds the bond maturity, the maturity of the liquidity facility or underlying floating-rate debt such as FRNs. As appropriate, the Commission will determine, in accordance with its Debt Policy, the capacity to have unhedged variable-rate debt in cases where the maturity of the Swap may be shorter than the maturity of the bonds.
Liquidity risk/Market Access risk	The inability to procure, continue or renew a liquidity facility, or access the market (private or public) for variable-rate debt.	The Commission will evaluate the expected availability of liquidity support or market access for swapped 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.
Collateral Posting risk	The risk of having to post collateral if the market valuation of a Swap is negative to the Commission.	The Commission will evaluate potential posting requirements through sensitivity analyses under different market and rating scenarios.
Amortization Mismatch risk	The risk that the notional of a Swap does not match the outstanding principal of the related debt.	The Commission will use best efforts to ensure that the notional schedule of a Swap will match the anticipated principal schedule of bonds being hedged.

Interest Rate risk	The risk that movements in levels of interest rates adversely impact the Commission's Swaps.	The Commission will monitor its exposure to interest rates and the impact to cash flows (taking into account the underlying hedged debt) as well market valuations.

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/March 2013 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, provided that careful analysis of the risks and legal structure of such entity is conducted. 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 and making markets for Swap transactions.

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, as well as notional amount and sensitivity to movements in interest rates, SIFMA/LIBOR ratios, and in the case of option-based products, volatility. Termination value will be determined at least monthly, based on a mid-mark-to-market calculation of 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, the terms and conditions of the amendment, modification, novation or optional termination, and market conditions at the time 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. The credit rating of each Swap counterparty, parent, guarantor, and credit enhancer insuring Swap payments, if any.
iii. Actual collateral posting by Swap counterparty, if any, per Swap agreement and in total by Swap counterparty.
iv. Information concerning any material event involving outstanding Swap agreements, including a default by a Swap counterparty, counterparty downgrade, or termination.
v. An updated contingency plan to replace, or fund a termination payment in the event an outstanding Swap is terminated.
vi. The status of any liquidity support used in connection with Swaps, including the remaining term and current fee, if any.

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. When appropriate, 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 and the particular circumstances giving rise to the termination event, 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 is required to make 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.

D. Market Developments

The Commission, in consultation with its Swap Advisor, will monitor for market developments such as the replacement or discontinuation of indices that have been included in the Commission's Swaps, or other practices that may affect the Commission's Swaps and associated documentation. The Commission will use its best efforts to minimize the potential risks associated with such changes.

VII. <u>Selecting and Procuring Interest Rate Swaps:</u>

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. In particular, the Commission may procure a Swap through a negotiated process if it makes a determination, in consultation with its Swap Advisor, that due to the Swap's characteristics (such as size, price transparency, liquidity, etc.), market conditions and other business considerations, a negotiated process would result in the most favorable pricing and execution.

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.

In addition to the above, the Swap Advisor should be a registered Municipal Advisor with the MSRB and SEC.

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 required by any market regulators 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).

ISDA March 2013 Dodd-Frank Protocol: ISDA's Protocol published on March 22, 2013 intended to address the CFTC Final Rule, *Confirmation, Portfolio Reconciliation, Portfolio Compression, and Swap Trading Relationship Documentation Requirements for Swap Dealers and Major Swap Participants,* 77 Fed. Reg. 55904 (September 11, 2012); CFTC Final Rule, *End-User Exception to the Clearing Requirement for Swaps,* 77 Fed. Reg. 42559 (July 19, 2012); and CFTC Final Rule, *Clearing Requirement Determination Under Section 2(h) of the CEA,* 77 Fed. Reg. 74284 (December 13, 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.

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