



Pennsylvania Turnpike Commission Act 44 Financial Plan Fiscal Year 2025

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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, 2024 (“Fiscal 2024”), the Commission has fully met its obligations by providing a total of \$8.0 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 since 2013. 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 2024 to fund its Fiscal 2024 Act 44/Act 89 Payment. The \$50 million Fiscal 2024 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 2024. In Fiscal 2024, the Commission financed a portion of its 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 2025 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 and 2024 Year to Date Performance and Activities. PTC’s traffic and total revenue performance in Fiscal 2023 and Fiscal 2024 through February 29, 2024 (based upon unaudited actual data) demonstrated continued stabilization and modest improvements year over year, with increases in passenger traffic and stability in commercial traffic volume during both periods. Total revenue improved over each period. Fiscal 2023 results reflect an increase in passenger car transactions of approximately 3.2% compared to results for the same in Fiscal 2022, while commercial vehicle transactions increased by 2.6%. Total transactions in 2023 of 206.3 million increased by 3.1% compared to the same period for Fiscal 2022.

Through February 29, 2024, Fiscal 2024 results reflect an increase in passenger car transactions of approximately 2.0% compared to results for the same period in Fiscal 2023, while commercial vehicle transactions decreased by 0.3%. Total transactions through February 2024 of 156.35 million increased by 1.6% compared to the same period for Fiscal 2023.

Number of Vehicle Transactions and Fare Revenues										
Summarized by Fare Classification										
<i>(in thousands)</i>										
	Fiscal Year Ended May 31						Nine Months Ended February 28/29			
	2019	2020	2021	2022	2023	2023 vs. 2019	2023 vs. 2022	FY2023	FY2024	FY2024 vs. FY2023
Number of Vehicle Transactions										
Class 1 (Passenger)	181,946	158,738	137,714	165,128	170,355	-6.4%	3.2%	127,123	129,643	2.0%
Class 2-9 (Commercial)	31,346	30,602	31,887	34,976	35,898	14.5%	2.6%	26,787	26,703	-0.3%
TOTAL	213,292	189,340	169,601	200,104	206,253	-3.3%	3.1%	153,910	156,346	1.6%
Toll Revenue										
Class 1 (Passenger)	\$740,205	\$683,511	\$610,353	\$819,784	\$868,352	17.3%	5.9%	\$646,051	\$690,260	6.8%
Class 2-9 (Commercial)	595,180	606,050	648,458	749,243	793,355	33.3%	5.9%	585,099	610,495	4.3%
TOTAL	\$1,335,385	\$1,289,561	\$1,258,811	\$1,569,027	\$1,661,707	24.4%	5.9%	\$1,231,150	\$1,300,755	5.7%

* Totals may not add due to rounding.

Total toll revenue in Fiscal 2023, before discounts or other adjustments, of \$1.66 billion represents an increase of approximately 5.9% compared to Fiscal 2022. Passenger vehicle traffic is still approximately 6.4% below its Fiscal 2019 pre-pandemic level. In Fiscal 2024, total toll revenue through February 2024, before discounts or other adjustments, of \$1.3 billion represents an increase of approximately 5.7% compared to the same time period in Fiscal 2023. Gross passenger car toll revenue increased 6.8% compared to the same time period in Fiscal 2023, while gross commercial toll revenue increased 4.3% through February 2024. Despite passenger vehicle traffic still lagging its pre-pandemic levels, commercial traffic and toll revenues for both passenger and commercial vehicles continue to reflect a substantial improvement over pre-pandemic levels.



In the 2024 Bring Down Letter (as defined herein), CDM Smith projected approximately 208.8 million transactions and \$1.6 billion in Net Toll Revenues Minus Video Bad Debt Expense for the full Fiscal 2024, which is approximately 1.5% and 0.5%, respectively, higher than the prior projection for Fiscal 2024 provided in CDM Smith's most recent forecast in the May 2023 IG Traffic Study.

The Commission's projected Fiscal 2024 operating expenses are approximately \$379.5 million or 13.3% below budgeted amounts, primarily due to lower than budgeted: 1) benefit expenses (mostly pension and OPEB); 2) unused auto and tort reserves; 3) lower departmental costs, including salaries; and 4) implementation of GASB 96. The Commission remains committed to controlling operating expense growth as demonstrated by six consecutive years of actual expenditures lower than originally budgeted and by its 1.5% compound average growth rate in actual operating expense over the past fifteen years through FY23 (last audited actual expenses). 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 2024, as part of the Fiscal 2024 10-year Capital Plan, the Commission continued to fund 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 2024 General Reserve Fund ending balance of \$437 million remains well above the Commission's liquidity targets. In addition, the Supplemental Capital Fund is estimated to have a Fiscal 2024 ending balance of \$20.0 million. In aggregate, the Commission has \$457 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 2024 is projected to be 3.03x, which is higher than the 2.82x coverage ratio anticipated in the Fiscal 2024 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 1.68x and 1.56x, respectively, which are also higher than coverage levels projected in the Fiscal 2024 Financial Plan.

Strength in the Turnpike's financial performance continued to be acknowledged in Fiscal 2024 by the rating agencies in their commentary and most directly recognized by Moody's Investor Service by its rating upgrade in August 2023. The Commission received a credit rating upgrade from Moody's Investor service due to their view that "the Commonwealth will not further pressure the Turnpike for non-system based needs beyond current expectations." The three other rating agencies, S&P Global Ratings, Fitch Ratings, and Kroll Bond Rating Agency each reaffirmed their ratings in Fiscal 2024. 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 16.

Strategies, Policies and Covenants. As the Commission meets its Turnpike and Act 44/Act 89 Payment obligations over the course of Fiscal 2025, 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:** PTC updated its Turnpike revenue projections in March 2024 based on CDM Smith’s updated traffic and revenue forecast through 2054 as documented in its 2024 Bring Down Letter (the “2024 Bring Down Letter”). The 2024 Bring Down Letter reflects updated assessments of economic growth trends, normalization of traffic trends after the COVID-19 pandemic, modifications to E-ZPass and Toll By Plate penetration rates, as well as AET user behaviors. In addition, the revenue forecast accounts for planned annual toll increases through 2054. Consistent with historical practice, PTC utilizes the 2024 Bring Down Letter 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 2025, 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 2024, PTC adopted the Fiscal 2025-2034 Capital Plan, a \$7.5 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. These levels provide additional security beyond those included in the Commission’s Bond Indenture requirements and are aligned with PTC’s credit ratings.
- **Maintaining Strong Financial Resources:** Pursuant to its long established liquidity policy, the Commission continues to maintain a liquidity level equal to at least 10% of budgeted operating revenues. PTC regularly reviews its financial policies and resource targets to ensure the metrics applied are sufficient to support the Commission’s rating objectives. This review often includes an assessment of liquidity levels versus the daily operations cost for which those resources can support – days cash on hand (“DCOH”). Going forward, the long-range plan will target DCOH of at least 450 days.
- **Refunding Strategies:** Beginning in FY 2025, PTC’s debt portfolio includes approximately \$1 billion of callable debt annually that PTC plans to refund on a current basis. This material amount of refunding issuance is a significant increase over prior years as PTC historically refunded debt on an advance basis. The economics and size of the refundings are closely monitored and when appropriate the Commission may implement alternative refunding strategies to minimize the amount of PTC debt sold in a single market environment and also maximize the savings that may be achieved.



Fiscal 2025 and Long-Range Financial Plan. The Fiscal 2025 Financial Plan reflects various changes to its toll rates and its tolling schedule. These changes include the full-year effects of the January 2024 toll increase, which yielded a net increase in toll rates of 5%, as well as the partial year impact of the assumed January 2025 net toll increase of 5%. Two additional major system wide conversions include the first phase of the System conversion from a “trip-based” tolling schedule to a “segment-based” tolling schedule consistent with its “Open Road Tolling” (ORT) plans and a shift in the vehicle classification system from a weight based system to an axle/height classification. While operationally significant, these two conversions are expected to be revenue neutral. Forecasted revenues reflect additional annual toll increase of 4% in Fiscal 2026, with annual increases declining to 3% by Fiscal 2028. Budgeted Fiscal 2025 operating expenses are projected to increase by approximately 3% to \$450.9 million when compared to budgeted Fiscal 2024 operating expenses. For Fiscal Years 2025 and 2026, the Commission has assumed a budget based 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 2025 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 2025 Ten Year Capital Plan; and (v) provide \$50 million annually in current revenues required to fully meet its Act 44/Act 89 Payments. Fiscal 2025 debt service coverages on the Commission’s Senior Revenue Bonds, Subordinate Revenue Bonds and Subordinate Special Revenue Bonds are projected to be 2.64x, 1.48x and 1.39x, respectively, and are consistent with the Commission’s targeted debt service coverage ratios.

For purposes of the Fiscal Year 2025 Act 44 Financial Plan, the traffic and revenue forecast, as produced by CDM Smith in the 2024 Bring Down Letter, assumes that the combination of changes to the Turnpike toll schedules related to the partial implementation of ORT and the conversion of the vehicle classification system to axle/height is assumed to be revenue neutral to the Commission in the aggregate. It is the intent of the Commission that the new toll schedule in January 2025 will be approximately the equivalent to a 5% toll increase when compared to a similar trip/transaction in the prior year. While a general 5% toll increase is assumed for the entire System, the combination of changes to the tolling schedule (ORT) on a portion of the System and changes to the vehicle classification system along the entire Turnpike may result in fluctuations of individual toll increases across varied transactions. The Commission anticipates that most trips/transactions in 2025 will see either a slight decrease in the effective toll or no change in the effective toll from the conversion to ORT or the change to the vehicle classification system.

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 2025 Capital Plan, and fully fund its Act 44/Act 89 Payments. As demonstrated in this Fiscal 2025 Act 44 Financial Plan, the Commission has continued to take steps to increase its investment in its capital needs. The Fiscal 2025 Ten Year Capital Plan calls for \$7.5 billion in spending paid for by approximately \$3.5 billion in pay-as-you-go funding, \$3.8 billion in future Senior Revenue Bond proceeds during the ten year period, as well as \$144 million in funds from prior bond issuances 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 2025 Act 44 Financial Plan reflects a small decrease in debt funded capital projects. The Commission continues to pursue more pay-as-you-go funding throughout the long-range capital plan. The Fiscal 2025 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 2.43x 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 1.43x, while Subordinate Special Revenue Bond debt service coverage is at least 1.34x through 2057, with all coverage ratios expected to continue to increase thereafter. Finally, the Fiscal 2025 Act 44 Financial plan includes \$1.65 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 2025 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 section of the Southern Beltway, which opened in October of 2021, leads to I-79 at the Allegheny-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 2024 through February, passenger vehicles represent 82.9% 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 53.1% of its gross toll revenues from passenger vehicles and 46.9% from commercial vehicles during Fiscal 2024 through February.

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 Programs	Total Funding
	Operating	Capital (*)	Subtotal		
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. 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, 2024:

Outstanding Commission Indebtedness*

	Outstanding Principal	Accreted thru 6/1/2024	Total Outstanding
Turnpike Senior Revenue Bonds	\$7,002,910,000	-	\$7,002,910,000
Turnpike Subordinate Revenue Bonds	6,060,504,489	39,317,627	6,099,822,116
Turnpike Subordinate Special Revenue Bonds	911,541,334	51,527,259	963,068,593
Oil Franchise Tax Revenue Bonds (Senior and Subordinated)	1,442,556,247	17,779,979	1,460,336,225
Registration Fee Revenue Bonds	318,535,000	-	318,535,000

**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 (“DVRC”) 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 only \$183,500,000 has been drawn to date. The Fiscal 2025 Act 44 Financial Plan assumes no additional draws on the 2016 EB-5 Loan. The Commission refunded its first two tranches under the 2016 EB-5 Loans in February and November 2023, leaving \$88,500,000 outstanding under the program. The remaining tranches both mature in Fiscal 2025 and the Commission intends to enter into 30-year loans with DVRC pursuant to the terms outlined in the 2016 EB-5 Loan documents at the pre-determined rates established in 2019 and 2020. In addition, in Fiscal 2024, PTC entered into a loan with Redeployment Partners LP. that was issued as parity debt under the Commission’s outstanding indenture (the “2024 RPLP Loan”). While not issued under the outstanding EB-5 loan agreement, the 2024 RPLP Loan was structured and includes provisions similar to the outstanding long term financing option available under the 2016 EB-5 Loan tranches. The 2024 RPLP Loan will convert to a 30 year loan simultaneously with the final outstanding 2016 EB-5 Loan tranche.

III. Fiscal 2024 Activities



Fiscal 2024 Activities

PTC's Fiscal Year 2024 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 seventeenth year of Act 44, the Commission also maintained and improved the Turnpike. With improving revenues, the Commission committed \$292.7 million of revenue to pay-as-you-go capital funding and spent \$159.7 million from the Supplemental Capital Fund, compared to \$269 million in Fiscal 2023. In Fiscal Year 2024, the Commission made deposits into the Supplemental Capital Fund totaling \$20 million. This increasing commitment of pay-as-you-go resources is consistent with the Commission's focus on capital investment and the increase in funding under its recent capital plans.

Fiscal 2024 market conditions were less favorable than prior years with increased rates and credit spreads. Despite the weaker market environment, the Commission continued its efforts to maintain and improve the Turnpike. The Commission's efforts were acknowledged in Fiscal 2024 by a fourth rating agency – Moody's Investor Service - in its positive credit action (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 in Fiscal 2024. The Commission executed four bond transactions totaling approximately \$886 million in par. These transactions consisted of: (i) \$400 million Senior Turnpike Revenue Bonds, Series A of 2023, which provided almost \$344 million of capital funding and refunded \$61 million of bonds including the Commission's 2018 EB-5 Tranche No. 2; (ii) \$190 million Variable Rate Turnpike Revenue Refunding Bonds, Series B of 2023, which refunded \$189 million of the Commission's 2018 Series A-1 and Series B of 2018 Bonds; (iii) \$206 million Senior Turnpike Revenue Bonds, Series A of 2024, which provided over \$216 million of capital funding; and (iv) \$90 million Senior Turnpike Revenue Bonds, Series B of 2024, which provided capital funding through a direct loan with RPLP in connection with its EB-5 Loan program. In aggregate, the Commission's four transactions provided \$650 million of capital funding, and refinanced an additional \$250 million of outstanding obligations.

In addition, the Commission also issued \$231.4 million in Registration Fee Revenue Refunding Bonds (Floating Rate Notes), Series of 2023 in September 2023. This transaction was a refunding of an outstanding variable rate loan that was subject to mandatory tender. The transaction was not structured to generate savings but was executed to maintain the variable rate structure for the bonds which are hedged by outstanding swaps. The projects originally funded with the bonds were applied to the Mon/Fayette and Southern Beltway projects. Principal and interest on these Registration Fee Bonds are not paid by the PTC's toll revenues and, as such, are not reflected in this financial plan.

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 2024 Estimated Results compared to Fiscal 2023 Actual Results and Prior Fiscal 2024 Estimate
(\$ 000s), Fiscal Year End May 31

	Actual 2023	Prior Estimated 2024 Plan	Current Estimated 2024 Plan	% Diff Act 2023	% Diff Prior 2024
Turnpike Operating Income					
Adjusted Gross Toll Revenues (+)	1,540,705	1,590,007	1,598,582	3.8%	0.5%
Gross Non-Toll Revenues (+)	50,778	48,157	48,157	-5.2%	0.0%
Gross Operating Revenues (+)	1,591,483	1,638,164	1,646,739	3.5%	0.5%
Operating Expense (-)*	366,479	437,741	379,500	3.6%	-13.3%
Interest Income (Senior DSRF and GRF earnings) (+)	24,027	20,540	20,540	-14.5%	0.0%
Net Turnpike Revenues Before Debt Service	1,249,031	1,220,963	1,287,779	3.1%	5.5%
Senior Turnpike Revenue Bond Debt Service (-)	372,520	433,012	424,989	14.1%	-1.9%
Net Income Before Capital Expense and General Reserve	876,511	787,951	862,790	-1.6%	9.5%
Capital Funding					
Construction Fund Beginning Balance					
Newly Sized Senior Bond Proceeds (+)	250,000	421,426	649,872	159.9%	54.2%
Federal Fund Reimb. (+)	-	-	-	-	-
PAYGO Contribution (+)	222,518	250,000	250,000	12.4%	0.0%
Additional PAYGO Transfer from Gen. Res. Fund (+)	46,500	-	42,700	-8.2%	-
PAYGO Reimbursement to Gen. Res. Fund (-)	-	-	90,000	-	-
Supplemental Capital Fund Contribution (+)	-	159,728	159,728	-	0.0%
Capital Expenditure (-)	776,789	895,821	895,821	15.3%	0.0%
Reconciliation (+)	10,560	-	(36,870)	-	-
Construction Fund Ending Balance	64,728	-	144,336	123.0%	-
Cash Balances					
Cash Beginning Balance (excl. Liquidity)					
Net Income (+)	876,511	787,951	862,790	-1.6%	9.5%
PAYGO (-)	222,518	250,000	250,000	12.4%	0.0%
Additional Cash Payments for OPEB, DSRF, Defeasance (-)	30,727	-	-	-100.0%	-
Additional Transfer to Res. Main. Fund for Capital Funding (-)	46,500	-	42,700	-8.2%	-
PAYGO Reimbursement to Gen. Res. Fund (+)	-	-	90,000	-	-
Transfer to Supplemental Capital Fund (-)	73,000	-	20,000	-72.6%	-
Other Transfers (-)	24,200	-	5,592	-76.9%	-
Reconciliation (+)	(100,304)	-	(136,763)	-	-
Liquidity Requirement Cashflow Set-aside (-)	8,791	5,008	5,526	-37.1%	10.3%
Subordinate and Sub. Special Revenue Bonds Int. Earnings (+)	7,703	7,843	7,843	1.8%	0.0%
Subordinate Bonds Debt Service (-)	334,737	348,311	348,311	4.1%	0.0%
Subordinate Special Revenue Bonds Debt Service (-)	53,427	56,583	56,583	5.9%	0.0%
Net Funds Remaining Before Act 44 Payments	277,167	363,007	322,326	16.3%	-11.2%
Liquidity Balance	159,148	163,816	164,674	3.5%	0.5%
Debt Service Coverage Ratios					
Senior Lien					
Pledged Revenues	1,249,031	1,220,963	1,287,779		
Debt Service	372,520	433,012	424,989		
Coverage	3.35 x	2.82 x	3.03 x		
Subordinate Lien					
Pledged Revenues	1,256,224	1,228,307	1,295,123		
Debt Service	707,257	781,323	773,300		
Coverage	1.78 x	1.57 x	1.67 x		
Subordinate Special Revenue Lien					
Pledged Revenues	1,256,734	1,228,806	1,295,622		
Debt Service	760,684	837,906	829,883		
Coverage	1.65 x	1.47 x	1.56 x		

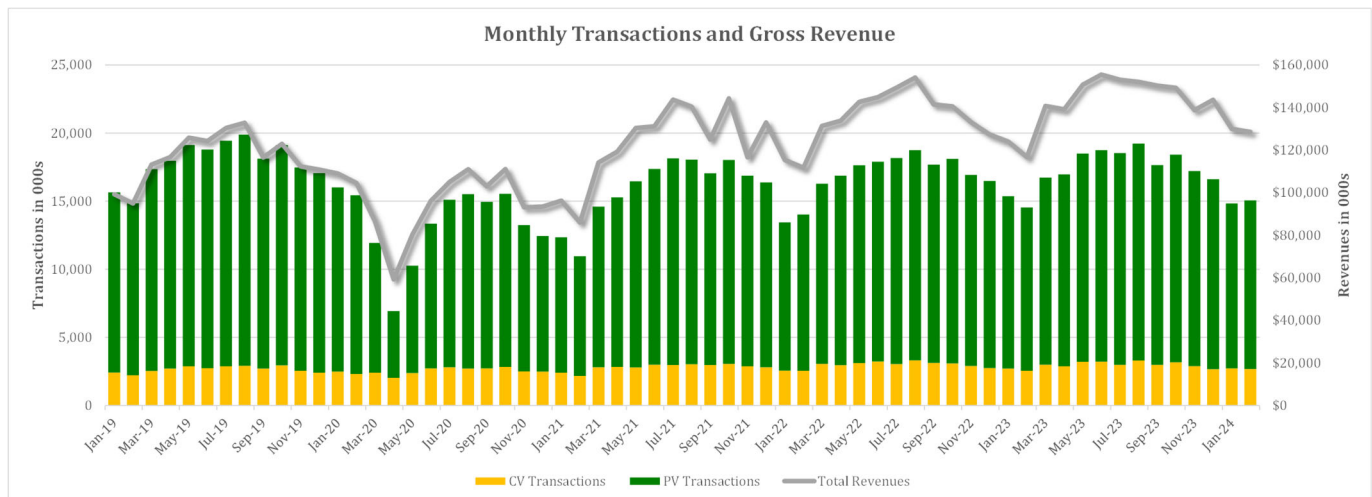
Note: Pledged revenues include net revenues and debt service reserve fund interest earnings attributable to each lien



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 3.8% in Fiscal 2024, to \$1.6 billion, compared to Fiscal 2023 results. The increase in revenues is primarily a result of improving passenger car traffic volume and toll increases. In Fiscal 2024, the Commission implemented its scheduled 5% toll increase that took effect in January 2024.

Monthly transactions in Fiscal 2024 (through February) only lagged pre-pandemic (Fiscal 2019) levels by approximately 1.7% on average. Monthly revenues for FY 2024 through February have exceeded pre-pandemic levels by approximately 33% on average. The following charts display monthly revenue and monthly volume trends for PTC for Fiscal 2020 through Fiscal 2023, and the nine months of Fiscal 2024 through February.



For Fiscal 2024, PTC’s other income consisting of VES and other ETC related fees, lease and rental fees and concession fees is expected to be \$48.2 million. Interest income is estimated to be an additional \$28.4 million.

Turnpike Operations and Capital Program

The budgeted operating expenses for Fiscal 2024 of \$437.7 million were 2.9% higher than Fiscal 2023 budgeted figures of \$425.2 million, consistent with the Commission’s continued focus on managing year over year costs. Projected Fiscal 2024 unaudited operating expenses of \$379.5 million are approximately \$58 million or 13.3% below budgeted amounts primarily due to lower than budgeted: 1) benefit expenses (mostly pension and OPEB); 2) unused auto and tort reserves; 3) lower departmental costs, including salaries; and 4) implementation of GASB 96. 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.

The Commission maintains an Other Postemployment Welfare Plan Program (the Plan), for the purpose of providing benefits to eligible retirees and their dependents. On May 30, 2008, the Commission established the PTC Retiree Medical Trust (the Trust), an irrevocable trust, tax-exempt under Section 115 of the Internal Revenue Code, to provide funding of the Plan's other postemployment benefits (OPEB). The Commission also adopted its Retiree Medical Trust Fund Policy (Policy) in 2008 with the intention of approving annual contributions to the Trust equal to the Actuarially Determined Contribution (ADC) as determined by the Commission's actuary. As a result of PTC's annual contributions since 2008, along with strong investment returns and plan experience, the PTC has a net OPEB asset which helps control operating costs resulting in actual expenses coming in below budget. As of May 31, 2023, the Plan reported a net position of \$559.7 million compared to a liability of \$386.2 million, resulting in a net OPEB asset of \$173.5 million. The funded status of the Plan and corresponding amount of the OPEB asset (or liability) is subject to change based upon several factors including financial market conditions, benefit structures and costs and plan experience. In April 2023, PTC revised its Policy to anticipate approving an annual operating budget that includes annual contributions to the Trust, taking into consideration the funded status of the Trust, the estimated ADC and service cost, market conditions, OPEB expense projections, projected cash balances and other pertinent factors.

Turnpike capital outlays are estimated at \$895 million for Fiscal 2024, of which \$292.7 million or nearly 33% was pay-as-you-go funding, excluding the Supplemental Capital Fund contribution of \$159.7 million. 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. As of April 30, 2024, the PTC has completed reconstruction of 155 miles of the Mainline with most of these sections widened to six lanes. Approximately another 27 miles are currently in total reconstruction and 80 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 2027.
 - Hawk Falls project continued in FY24 and consists of 1.15 miles of major bridge replacement and is expected to be completed in calendar year 2025.
- Tuscarora Tunnel improvement project to improve the eastbound and westbound tunnel tubes. The project was fully completed in FY 2024.
- Facilities and energy management improvements including repair and replacement of maintenance facilities with the completion of Devault Maintenance Facility expected by June 2024.



- The fleet program includes the purchase of rolling stock to ensure adequate maintenance of the roadway system.
- Installation of the full-System fiber optic network along the right-of-way continued in FY24. The first two segments on the Mainline from the Harrisburg East interchange to the Delaware River Bridge and the full length of the Northeast Extension have been completed and are operational. The remaining three segments - Harrisburg East Interchange to Ohio are in various stages of design and construction with completion of the entire statewide System expected by 2026.
- Information technology which includes toll collection projects, communication, application development and technical operational needs. In FY24, PTC continued building the Unified Back Office System (UBOS) that provides the infrastructure, tools, and information management systems to enhance our customer service.

In Fiscal 2024, the Commission used the Supplemental Capital Fund under the Senior Revenue Bond Indenture to fund “Additional Capital” projects not identified in the FY 2024 Ten Year Capital Plan. Amounts available in the Supplemental Capital Fund are permitted to be applied to projects both within and outside of the Commission Ten Year Capital Plan. The Commission made deposits into the Supplemental Capital Fund totaling \$20 million and used approximately \$159 million to fund capital needs.

Act 44 Activities

As required under the Act, the Commission met its Fiscal 2024 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 2024 is estimated to be \$437 million, which is \$40 million or 8% lower than the amount projected in the Fiscal 2024 Financial Plan. This is largely due to the Commission’s deposit of \$20 million from the General Reserve Fund into the Supplemental Capital Fund during Fiscal 2024. The Commission’s Supplemental Capital Fund ending balance for Fiscal 2024 is estimated to be \$20 million resulting in a combined balance with the General Reserve Fund of \$457 million, which is slightly below the amount projected in the Fiscal 2024 Financial Plan. The strong financial position of the Commission is demonstrated by the estimated combined General Reserve Fund and Supplemental Capital Fund balance, which significantly exceeds the amount required under the Commission’s policy.

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Exhibit 3
Fiscal 2024 Estimated Results compared to Fiscal 2023 Actual Results and Prior Fiscal 2024 Fiscal Plan
Estimate
(\$ 000s), Fiscal Year End May 31





	Actual 2023	Prior Estimated 2024 Plan	Current Estimated 2024 Plan	% Diff Act 2023	% Diff Prior 2024
Act 44 Payment Sources					
Net Funds Remaining Before Act 44 Payments	277,167	363,007	322,326	16.3%	-11.2%
Subordinate Bond Proceeds	-	-	-		
Act 44 Payments					
Transit Capital/Other Payments	25,000	25,000	25,000		
Transit Capital/Other Payments Sources					
Turnpike Cash	25,000	25,000	25,000		
Tax-Exempt Subordinate Bond Proceeds	-	-	-		
Transit Capital/Other Total Sources	25,000	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	50,000	50,000	50,000		
Total Act 44 Sources	50,000	50,000	50,000		
Remaining Turnpike Cash	227,167	313,007	272,326		
General Reserve Fund/Liquidity Requirement	386,316	476,823	437,000		
Supplemental Capital Fund	159,728	-	20,000		
Gen. Res. Fund/Liquidity Req. + Suppl. Capital Fund	546,044	476,823	457,000		

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”). On August 14, 2023, Moody’s upgraded its rating on the Senior Revenue Bonds from “A1” to “Aa3” and from “A3” to “A2” on the Subordinate Revenue Bonds, while revising the outlook from “positive” to “stable.” The outlook reflects Moody’s expectation that the Commission will continue to increase tolls that result in at least 2.0x debt service coverage for senior revenue bonds, 1.3x for subordinate revenue bonds and 1.2x for subordinate special revenue bonds. Fitch affirmed its rating of “AA-” on the Senior Revenue Bonds and “A” on the Subordinate Revenue Bonds and affirmed its “stable” outlook on both on January 5, 2024. S&P affirmed its rating on the Senior Revenue Bonds of “AA-” and “A+” on the Subordinate Revenue Bonds and affirmed their “stable” outlook on January 5, 2024. Kroll affirmed their ratings and outlooks on the Senior Revenue Bonds at “AA-” and the Subordinate Revenue Bonds



at "A+" with "stable" outlook on January 8, 2024. 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
 Senior: Aa3 (Stable) Sub. Lien: A2 (Stable) <i>Date of report: 10/4/2023</i> <i>(Rating upgraded on 8/14/2023 and affirmed on 1/5/2024)</i>	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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. • Large 10-year CIP will increase debt.
 Senior: AA- (Stable) Sub. Lien: A+ (Stable) <i>Date of report: 1/5/2024</i>	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • High debt burden. • Reliance on frequent toll increases to address rising debt service requirements.
 Senior: AA- (Stable) Sub. Lien: A (Stable) <i>Date of report: 1/5/2024</i>	<ul style="list-style-type: none"> • Improved financial flexibility. • Ability and willingness to raise tolls. • Strong liquidity position • History of prudent cost management. • Essential route with commercial exposure. • Reasonable debt structure. 	<ul style="list-style-type: none"> • Sizeable debt burden. • Sizeable capital program. • Dependence on sustained toll rate increases. • Potential political opposition to annual toll increases.
 Senior: AA- (Stable) Sub. Lien: A+ (Stable) <i>Date of report: 1/8/2024</i>	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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 continues to focus on its future capital needs. The Commission's Fiscal 2025 Capital Plan is slightly below the capital plan levels established in the Fiscal 2024 Capital Plan. This funding enables PTC to continue its progress and investments in the System assets 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 2025 rolling ten year Capital Plan represents a 2% decrease over the Fiscal 2024 Capital Plan. The Commission's projected capital needs will continue to require regular capital market access, with total anticipated Senior Revenue Bond issuance of \$3.8 billion through 2034. The Commission also continues to manage its substantial existing debt portfolio of \$7.0 billion in Senior Revenue Bonds and \$7.1 billion in Subordinate and Special Revenue Bonds. PTC has a well-established track record of executing large capital initiatives while maintaining financial flexibility.

PTC is also in the early stages of evaluating and planning for two large scale capital projects: 1) Replacement of the Delaware River Bridge (in conjunction with the New Jersey Turnpike Authority); and 2) Replacement of the Allegheny Tunnel with a mountain-cut bypass. Neither project is expected to begin construction for an estimated 10 years. These two large scale capital projects are estimated to cost over \$1.2 billion (current year estimates) to complete. It should be noted that while the Commission will be responsible for designing and managing the construction of the Delaware River Bridge replacement, the Commission will only be responsible for funding approximately half of the cost of the project as the bridge will be jointly owned by the Pennsylvania Turnpike Commission and the New Jersey Turnpike Authority. Pennsylvania and New Jersey are expected to jointly apply for federal funds to cover a portion of the total costs of the bridge replacement.

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. 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. The Fiscal 2025 Act 44 Financial Plan lays out the Commission's intent to begin depositing excess revenues annually, over the next 10 years, into its Supplemental Capital Fund to support these two large capital projects on a PAYGO basis.

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. According to CDM Smith's 2024 Bring Down Letter, between January 2023 and December 2023, approximately 89% 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 12.6% 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. In 2023, 4.9% of transactions are invoiced and expected unpaid. The Commission estimates that approximately 0.2% of all transactions are unbillable due to either a license plate not present or obstructed this amount is down from 0.9% in the prior year. 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 0.2% of transactions which is down from 0.4%. Since fully converting to AET in March 2020, the Commission is averaging an invoice payment rate of greater than 55% after 150 days following billing. For the rolling twelve month period ending December 31, 2023, the Commission estimates that approximately \$171 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. PTC continues to make progress in improving collections having reduced unbillable transactions due to license plate related challenges and address identification by 27% and 22% respectively, since March of 2020.

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, including both civil and criminal complaints. 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. Since then the Commission has successfully pursued and collected on thousands of unpaid toll accounts with thousands more being processed. To date, the Commission has collected nearly \$26 million in unpaid tolls and fees.

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.

To date, the Commission has secured agreements with 10 Pennsylvania counties for the filing of civil complaints related to unpaid tolls. Through December 31, 2023, a total of nearly 600 demand letters have been sent to customers and nearly 350 civil complaints have been filed in Commonwealth courts (mainly magisterial districts). Of the civil complaints filed through December 2023, nearly 100 such cases have either paid in full or are in payment plans. The Commission is also perfecting and collecting judgements, including Sheriff Office scheduled asset sales and the filing of liens against toll scofflaw assets. The Commission's internal audit and legal teams have been coordinating with the United States Government ("GSA Fleet") and the United States Postal Service regarding the implementation of a GSA Fleet vehicle license plate lookup for the collection of unpaid tolls. A limited number of license plate readers have been mounted on certain overhead gantries and signs along the Turnpike which can scan a vehicle's license plate to identify any outstanding criminal citations, warrants or similar issues as well as to identify a vehicle with unpaid tolls exceeding the levels established in Act 112. Finally, the Commission continues to investigate and refer to law enforcement, coordinated efforts by a limited number of commercial accounts to avoid tolls.

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 seventeenth 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.



Monitoring Future Performance (Transaction Reporting). Consistent with PTC’s planned conversion to Open Road Tolling (“ORT”), the eastern portion of the Mainline Turnpike, from east of the Reading Interchange (Exit 286) to the New Jersey Line along with the entire Northeast Extension (I-476), consisting of 19 gantries and small utility buildings to house the required equipment, is expected to go live in January 2025. The ORT system for the central and western Mainline Turnpike is expected to begin construction in 2025 and go live in 2027. Under ORT, toll transactions are assessed as vehicles pass under each gantry. This form of tolling is referred to as “Segment-Based Tolling.” Since its inception in 1940, the Commission has utilized a “Trip-Based Tolling” system in which tolls are calculated for each customer based on their unique entry and exit points. With the conversion of a portion of the System to ORT in January 2025, portions of the System transaction will remain based on a Trip-Based calculation while other portions of the System which are converted to ORT will begin reporting transactions based on Segment-Based Tolling. This will result in a material increase in the number of transactions reported when compared to prior years. For example, prior to ORT, a customer who enters at the Reading Interchange and heads east to the Delaware River Bridge would be considered one trip/transaction. However, under the ORT system, the same customer will pass through at least 10 individual tolling locations which will result in 10 reported transactions. This challenge is not expected to impact PTC’s operations, and CDM Smith, the Commission’s traffic consultant, has analyzed the conversion to ORT and assumes it to be revenue neutral on a system-wide basis. For purposes of forecasting future transaction, until such time as the Commission has completely converted to an ORT environment, CDM Smith transaction forecasts will remain trip- based. However, the Commission focuses on providing clear, accurate and relevant data in a format that investors and other key stakeholders can use to understand performance and traffic trends. With this shift in transaction measurement and reporting, over the next 3 to 5 years investors will observe discontinuities in traffic and performance data (as measured by transactions) for affected system segments on a year-over-year basis. PTC is actively working with Transcore and its traffic consultant, CDM Smith to identify accurate accounting for system transactions that will enable clear and consistent analysis.



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. Following jurisdictional discovery, Plaintiff renewed her motion for remand which was denied. Plaintiff subsequently filed an amended complaint on May 19, 2023. On June 30, 2023, the Commission filed a motion to dismiss Plaintiff's amended complaint. Briefing on the motions to dismiss the amended complaint was completed on August 17, 2023 and the motions are awaiting a decision.

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.

Black & Veatch Construction, Inc. On September 22, 2023, Black & Veatch Construction Inc. ("BVCI") filed a claim with the Commission related to the Commission's Contract No. EN-00232-03-02 for the design build fiber optic network installation on the mainline turnpike between milepost



247.4 and milepost H-42.70. BVC I submitted a bid for the work for the first of the five contracts and was the low bidder at approximately \$45 million. In September 2019, following the award, BVC I and the Commission entered into a contract. Although the contract completion date was November 19, 2021, BVC I did not achieve substantial completion until June 2, 2023. The Commission assessed liquidated damages in excess of \$3 million due to BVC I's 489-day late delivery of the project. BVC I seeks approximately \$44 million in alleged breaches of contract and other alleged Commission caused impacts as reasons for BVC I's late delivery of the project. In accordance with the contract requirements. A Claims Review meeting is scheduled for was held with representatives of BVC I and the Commission on April 10, 2024. The Contracting Officer presided over the meeting and will issue a final determination on July 19, 2024 at which time BVC I will assess whether to proceed with this matter in the Board of Claims. It is too early to tell the likelihood of an unfavorable outcome and an estimate of the amount or range of the potential loss. However, the Commission will vigorously defend this claim and will assert all available defenses in this matter.

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 and Subordinate Revenue Bonds both available on the Commission's website.

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.

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 2025 operating budget and its ten-year capital budget for Fiscal 2025-2034, on May 7, 2024.

The summaries provided herein 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 and Subordinate Revenue Bonds, both available on the Commission's website.

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.paturndpike.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 policies based on current trends in the management of derivatives.

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

Prior to the execution of any swap transaction, the Chief Financial Officer, the Assistant Chief Financial Officer for Financial Management, the Commission's Swap Advisor and legal counsel are required to evaluate the proposed transaction based on an assessment of potential benefits and risks defined in the Swap Policy. As part of its review of a proposed Swap agreement, the Commission will evaluate prevailing market practices and requirements, legal requirements and potential impacts on the PTC's management 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 2025 Financial Plan



Fiscal 2025 Financial Plan

PTC’s Fiscal 2025 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 2024 and 2025.

Exhibit 4
Projected Fiscal 2025 Financial Plan(\$ 000s), Fiscal Year End May 31

	2024	2025
Turnpike Operating Income		
Adjusted Gross Toll Revenues (+)	1,598,582	1,666,156
Gross Non-Toll Revenues (+)	48,157	48,639
Gross Operating Revenues (+)	1,646,739	1,714,795
Operating Expense (-)	379,500	450,895
Interest Income (Senior DSRF and GRF earnings) (+)	20,540	20,643
Net Turnpike Revenues Before Debt Service	1,287,779	1,284,543
Senior Turnpike Revenue Bond Debt Service (-)	424,989	485,768
Net Income Before Capital Expense and General Reserve	862,790	798,775
Capital Funding		
Construction Fund Beginning Balance	64,728	144,336
Newly Sized Senior Bond Proceeds (+)	649,872	524,728
Federal Fund Reimb. (+)	-	-
PAYGO Contribution (+)	250,000	250,000
Additional PAYGO Transfer from Gen. Res. Fund (+)	42,700	-
PAYGO Reimbursement to Gen. Res. Fund (-)	90,000	-
Supplemental Capital Fund Contri. (+)	159,728	-
Capital Expenditure (-)	895,821	919,064
Reconciliation (+)	(36,870)	-
Construction Fund Ending Balance	144,336	-
Cash Balances		
Cash Beginning Balance (excl. Liquidity)	227,167	272,326
Net Income (+)	862,790	798,775
PAYGO (-)	250,000	250,000
Additional PAYGO Transfer to Res. Main. Fund for Capital Fund	42,700	-
PAYGO Reimbursement to Gen. Res. Fund (+)	90,000	-
Transfer to Supplemental Capital Fund (-)	20,000	66,045
Other Transfers (-)	5,592	-
Reconciliation (+)	(136,763)	-
Liquidity Requirement Cashflow Set-aside (-)	5,526	6,806
Subordinate and Sub. Special Revenue Bonds Int. Earnings (+)	7,843	7,882
Subordinate Bonds Debt Service (-)	348,311	387,333
Subordinate Special Revenue Bonds Debt Service (-)	56,583	57,914
Net Funds Remaining Before Act 44 Payments	322,326	310,885
Liquidity Balance	164,674	171,480
Debt Service Coverage Ratios		
Senior Lien		
Pledged Revenues	1,287,779	1,284,543
Debt Service	424,989	485,768
Coverage	3.03 x	2.64 x
Subordinate Lien		
Pledged Revenues	1,295,123	1,291,923
Debt Service	773,300	873,101
Coverage	1.67 x	1.48 x
Subordinate Special Revenue Lien		
Pledged Revenues	1,295,622	1,292,425
Debt Service	829,883	931,015
Coverage	1.56 x	1.39 x

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



Exhibit 5
Projected Fiscal 2025 Financial Plan
(\$ 000s), Fiscal Year End May 31

	2024	2025
Act 44 Payment Sources		
Net Funds Remaining Before Act 44 Payments	322,326	310,885
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		
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	272,326	260,885
General Reserve Fund/Liquidity Requirement	437,000	432,365
Supplemental Capital Fund	20,000	86,045
Gen. Res. Fund/Liquidity Req. + Suppl. Capital Fund	457,000	518,410



The Fiscal 2025 Financial Plan and the long-term financial plan was developed based on the following assumptions and methodologies.

Revenue Forecasting

PTC updated its Turnpike revenue projections in March 2024 based on CDM Smith’s updated traffic and revenue forecast through 2054 as documented in its 2024 Bring Down Letter (the “2024 Bring Down Letter”). The 2024 Bring Down Letter reflects updated assessments of economic growth trends, normalization of traffic trends after the COVID-19 pandemic, modifications to E-ZPass and Toll By Plate penetration rates, as well as AET user behaviors. In addition, the revenue forecast accounts for planned annual toll increases through 2054.

A detailed discussion of these updates and CDM Smith’s assessment can be reviewed in the 2024 Bring Down Letter which is available on the Commission’s investor relations site.

Estimated Toll Rates, Tolls and Other Revenues

Fiscal 2025 toll revenues reflect the full year impact of the toll increase implemented in January 2024 with an adjustment yielding an average toll rate increase of 5%. In January of 2025, the Commission will implement various changes to its toll rates and its tolling schedule. In keeping with its long established and published schedule of annual toll increases mandated by the requirements of Act 44 of 2007, it is anticipated that the Commission will approve in the summer of 2024 a general 5% toll increase for the entire System to be implemented in January 2025. Toll revenues are projected to increase by 4.2% to \$1.67 billion in Fiscal 2025. 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 \$1.74 billion for Fiscal 2025.

Beginning in January 2025, the long-planned gradual conversion of the System from a “trip-based” tolling schedule to a “segment-based” tolling schedule will begin. Under a trip-based tolling schedule a vehicle’s entry point to the Turnpike and its exit point from the Turnpike are recorded electronically and a toll is assessed for the full trip. Under a segment-based tolling schedule, rather than having its toll calculated based upon entry and exit points, vehicles are assessed tolls as they pass each tolling point along the Turnpike. Portions of the System from the Reading Interchange east to the Delaware River and the entire length of the Northeast Corridor will be converted to a segment-based tolling schedule referred to as “Open Road Tolling” (ORT). Those portions of the System that are not converting to ORT in 2025 will continue to use the traditional trip-based tolling structure until 2027 when the balance of the System is expected to be converted to ORT.

The Turnpike is the only remaining toll road in the United States that still establishes tolls based on vehicle weight. Such systems are expensive to construct, operate and maintain and are dependent upon scales at toll plazas. In January 2025, the entire Turnpike System is converting its vehicle classification system from a weight-based system to an upgraded one based on a combination of axles and height in which the toll is based upon a vehicle’s height plus the number of axles. The axle/height vehicle classification is expected to be the most accurate, predictable, and efficient system for the Turnpike’s customers. It is expected to be less expensive for the Commission to maintain and will be consistent with the vehicle classification systems currently being operating in surrounding states.



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 2025, the Commission's operating expenses are budgeted to be approximately 3% higher than Fiscal 2024 budget levels at \$450 million compared to \$437 million in Fiscal 2024. The 3% growth in expenditures is consistent with the level forecasted in prior Financial Plans. Operating expenses of the Pennsylvania State Police, which are beyond the Commission's control, are projected to increase nearly \$8 million or 12.4%. In order to accommodate the growth in the State Police budget for Fiscal 2025, operating expenses of the Commission, excluding the State Police, projected to rise in aggregate by just 1.4% in Fiscal 2025. The cost for employee benefits in Fiscal 2025 is expected to decline \$5.2 million, or 6% from Fiscal 2024 while departmental costs are projected to rise 3.6%. Growth in Fiscal 2025 departmental expenditures above the 3% target is limited to the Information Technology and is reflective of several large enterprise-wide initiatives currently underway.

Capital expenditures for the 2025 Ten Year Capital Plan are budgeted to be \$919 million for Fiscal 2025, a more than \$80.7 million (or 9.6%) increase over the budgeted amount for Fiscal 2025 from the Fiscal 2024 Ten Year Capital Plan. The additional budgeted Fiscal 2025 capital expenditures are related to two ongoing major river bridge crossing projects (Beaver River Bridge and Hawk Falls Bridge).

Debt service payments on the Commission's Senior Revenue Bonds for Fiscal 2025 are projected to be \$486 million. Combined Subordinate Revenue Bond and Subordinate Special Revenue Bond debt service is estimated to equal \$445 million. Compared to the Fiscal 2025 estimate shown in the Fiscal 2024 Financial Plan, total debt service costs for the Senior Revenue Bonds is lower by 1.6% versus the previous projection while debt service on the Subordinate and Subordinate Special Revenue Bonds has not changed from prior projections.

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 2025 represents the third year where the Commission's Act 44/89 Obligation has been reduced to \$50 million. As required, the Fiscal 2025 Act 44 Financial Plan reflects the Commission funding the full payment from cash resources.

Planned Borrowings

To meet its Fiscal 2025 capital expenditures, PTC expects to utilize \$144 million of proceeds from previously issued series of bonds, \$250 million in pay-as-you-go funding as well as \$524.7 million in additional Senior Revenue Bond proceeds. 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 premium 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 2025.

Based on the above assumptions for revenues, operations and maintenance expense and debt service, Fiscal 2025 debt service coverage of the Commission's Senior Revenue Bonds is expected to be 2.64x, 1.48x on the Subordinate Revenue Bonds, and 1.39x on the Subordinate Special Revenue Bonds.

General Reserve Fund and Supplemental Capital Fund

In compliance with PTC's Liquidity Standard Policy, the Fiscal 2025 Act 44 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 2025 of \$432.4 million, which includes a \$171.5 million liquidity level set aside in the General Reserve Fund.

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 rating objectives, 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 2024 Bring Down Letter regarding traffic and volume forecasts.
- The Commission's commitment to independent toll rate making ability and implementing annual toll increases, as planned, in support of its Rate Covenant.
- Maintaining Commission debt service coverage ratios at levels above its policy levels across all liens in support of its bond ratings.
- The Commission's goals to contain operating and maintenance expense growth.
- The Turnpike's capital needs under its near to medium term adopted ten-year capital plan and a sustained level of spending thereafter adjusted for inflation.
- Required Act 44/Act 89 Payments of \$50 million annually.
- Over the short and intermediate term, a mix of debt and pay-as-you-go financing to meet Turnpike and Act 44 needs and to maintain required liquidity levels.
- Over an extended period of time, deleveraging of the Commission by reducing total debt outstanding through a gradual conversion from debt funded capital expenditures to a cash-funded (PAYGO) capital program.
- Strategic allocation of current revenues for funding major capital projects outside of typical capital plan expenditures.

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 2025 Act 44 Financial Plan assumes one final annual toll increase of 5% in Fiscal 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 with a long term aggregate liquidity target of 450 days cash on hand. 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% in 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, funding OPEB obligations and funding the Pennsylvania State Police as it operates on the System.

Capital Expenses

The financial plan assumes the Turnpike’s adopted \$7.5 billion rolling ten-year capital plan through Fiscal 2034. With the decrease in the Commission’s Act 44/Act 89 Payments after 2022, the Commission is continuing to focus on System capital needs. To fund the \$7.5 billion Fiscal 2024 Ten Year Capital Plan, the Commission will have to commit \$3.5 billion in pay-as-you-go funding, \$3.8 billion in additional Senior Revenue Bond proceeds, \$40 million in federal funds, and \$144 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 \$4.07 billion of Senior Revenue Bonds between Fiscal 2025 and Fiscal 2034.

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 to its base capital investment beginning in 2035. Going forward, the Commission intends to allocate current revenues, above those needed to maintain at least 450 days of liquidity, for use on additional capital projects outside the scope of the rolling 10 year capital plan (“Additional Projects”). Over the Fiscal 2025-2057 period, the rolling 10 year capital plan spending is estimated to be \$30.8 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 \$5.0 billion of Senior Revenue Bonds between Fiscal 2025 - 2039. Pay-as-you-go funding is generally increasing while the debt contribution declines. In this Fiscal 2025 Act 44 Financial Plan, all capital expenditures after Fiscal 2039 are funded from cash resources. Additional Projects funded from the allocated current revenues are estimated to begin in Fiscal 2034 and are expected to continue to grow annually through 2057.

Act 44/Act 89 Payments

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



Financing Guidelines

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's liquidity policies and management targets, a portion of the remaining revenues are used as pay-as-you-go capital. Contributions from the Turnpike General Reserve Fund to fund \$50 million in Act 44/Act 89 Payments annually through Fiscal 2057 are expected.

The following guidelines and assumptions for the Senior Revenue Bonds were used to develop the financing strategy for the financial plan:

- Base yields reflect current 'AAA' MMD rates with 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 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 premium 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

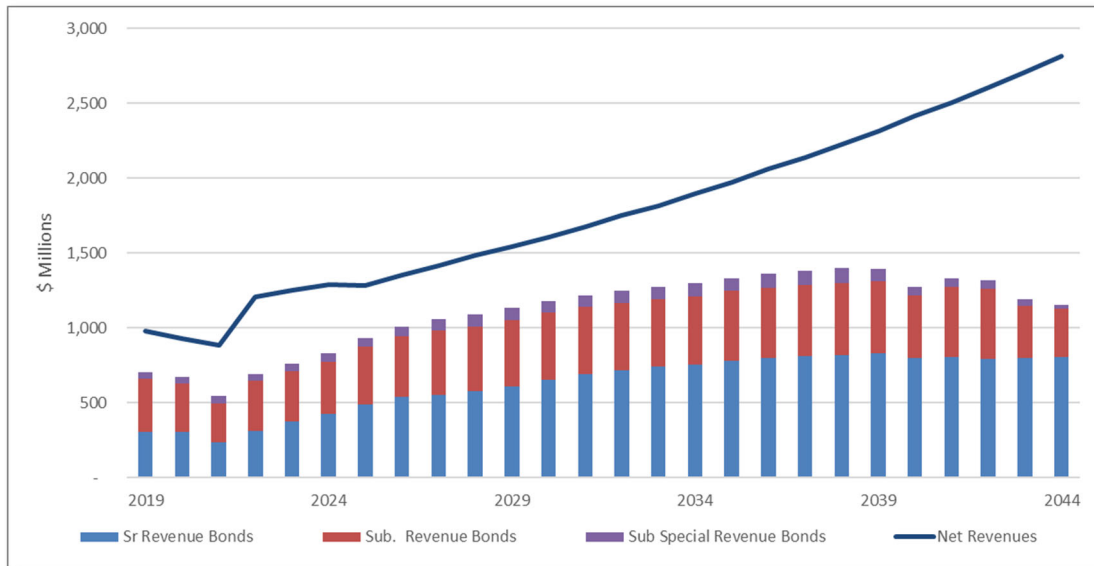
During the course of the financial plan, the Commission is projected to generate sufficient resources to operate and maintain the Turnpike, provide for its capital investment needs to ensure the System is maintain in a state of good repair, meet debt service requirements, fund required Act 44/Act 89 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 2025 to 2057 plan period, PTC is projected to issue \$5.0 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 2.43x 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 1.43x, while Subordinate Special Revenue Bond debt service coverage is no less than 1.34x. Both coverage ratios continue to increase throughout the plan.



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



To provide added protection, in the near term, the financial plan assumes the Commission maintains at least an aggregate of 10% of annual gross revenues deposited in the General Reserve Fund. Beginning with this Fiscal Year 2025 Financial Plan, the Commission intends to further enhance its internal liquidity by targeting a liquidity amount of 450 days of cash on hand in the General Reserve Fund and the Supplemental Capital 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-three 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 Policies

A. Financial Plan Cash Flows

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

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Turnpike Operating Income										
Adjusted Gross Toll Revenues (+)	1,190,419	1,459,916	1,540,705	1,598,582	1,666,156	1,745,824	1,820,299	1,897,706	1,964,360	2,039,168
Gross Non-Toll Revenues (+)	39,753	43,662	50,778	48,157	48,639	49,125	49,616	50,112	50,613	51,119
Gross Operating Revenues (+)	1,230,172	1,503,578	1,591,483	1,646,739	1,714,795	1,794,949	1,869,915	1,947,818	2,014,973	2,090,287
Operating Expense (-)	361,822	312,258	366,479	379,500	450,895	464,422	476,032	485,553	495,264	505,169
Interest Income (Senior Lien and GRF earnings) (+)	13,391	12,534	24,027	20,540	20,643	20,746	20,850	20,954	21,059	21,164
Net Turnpike Revenues Before Debt Service	881,741	1,203,854	1,249,031	1,287,779	1,284,543	1,351,273	1,414,733	1,483,219	1,540,768	1,606,282
Senior Turnpike Revenue Bond Debt Service	234,905	311,234	372,520	424,989	485,768	536,091	553,472	574,406	607,376	654,613
Net Income Before Capital Expense and General Reserve	646,836	892,620	876,511	862,790	798,775	815,182	861,260	908,813	933,392	951,669
Capital Funding										
Construction Fund Beginning Balance	193,315	122,811	311,939	64,728	144,336	-	-	-	-	-
Newly Sized Senior Bond Proceeds (+)	421,794	506,950	250,000	649,872	524,728	577,547	377,036	343,480	400,549	349,948
Federal Fund Reimb. (+)	1,239	11,232	-	-	-	-	-	-	-	5,000
PAYGO Contribution (+)	59,100	210,718	222,518	250,000	250,000	240,000	275,000	315,000	340,000	340,000
Additional PAYGO Transfer from Gen. Res. Fund (+)	-	19,605	46,500	42,700	-	-	-	-	-	-
PAYGO Reimbursement to Gen. Res. Fund (-)	-	-	-	90,000	-	-	-	-	-	-
Supplemental Capital Fund Contr. (+)	-	-	-	159,728	-	-	-	-	-	-
Capital Expenditure (-)	552,868	529,880	776,789	895,821	919,064	817,547	652,036	658,480	740,549	689,948
Reconciliation (+)	231	(29,497)	10,560	(36,870)	-	-	-	-	-	-
Construction Fund Ending Balance	122,811	311,939	64,728	144,336	-	-	-	-	-	5,000
Cash Balances										
Cash Beginning Balance (excl. Liquidity)	275,953	329,029	287,156	227,167	272,326	260,885	265,841	269,478	270,817	273,413
Net Income (+)	646,836	892,620	876,511	862,790	798,775	815,182	861,260	908,813	933,392	951,669
PAYGO Contribution (-)	59,100	210,718	222,518	250,000	250,000	240,000	275,000	315,000	340,000	340,000
Additional Cash Payments for OPEB, DSRF, Defeasance (-)	143,115	17,365	30,727	-	-	-	-	-	-	-
Additional Transfer to Res. Main. Fund for Capital Funding (-)	-	19,605	46,500	42,700	-	-	-	-	-	-
PAYGO Reimbursement to Gen. Res. Fund (+)	-	-	-	90,000	-	-	-	-	-	-
Supplemental Capital Fund Deposit (-)	-	107,000	73,000	20,000	66,045	50,951	26,363	29,979	17,643	36,272
Other Transfers (-)	-	3,600	24,200	5,592	-	-	-	-	-	-
Reconciliation (+)	(57,392)	(143,080)	(100,304)	(136,763)	-	-	-	-	-	-
Liquidity Requirement Cashflow Set-aside (-)	-	27,341	8,791	5,526	6,806	8,015	7,497	7,790	6,716	7,531
FRN Redemptions	-	-	-	-	-	-	-	-	-	-
Subordinate Revenue Bonds Interest Earnings (+)	5,514	5,142	7,193	7,344	7,380	7,417	7,454	7,492	7,529	7,567
Subordinate Special Revenue Bonds Interest Earnings (+)	462	441	510	499	502	505	507	510	512	515
Cash Ending Balance (excl. Liquidity)	669,158	698,524	665,332	727,220	756,133	785,024	826,203	833,523	847,891	849,361
Liquidity Balance	123,017	150,358	159,148	164,674	171,480	179,495	186,992	194,782	201,497	209,029
Cash Ending Balance (excl. Liquidity)	669,158	698,524	665,332	727,220	756,133	785,024	826,203	833,523	847,891	849,361
Subordinate Bonds Debt Service	261,311	331,983	334,737	348,311	387,333	410,740	430,785	435,237	445,231	446,362
Subordinate Special Revenue Bonds Debt Service	48,818	49,385	53,427	56,583	57,914	58,443	75,939	77,470	79,247	77,619
Net Funds Remaining Before Act 44 Payments	359,029	317,156	277,167	322,326	310,885	315,841	319,478	320,817	323,413	325,380

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

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Act 44 Payment Sources										
Net Funds Remaining Before Act 44 Payments	359,029	317,156	277,167	322,326	310,885	315,841	319,478	320,817	323,413	325,380
Subordinate Bond Proceeds	420,000	420,000	-	-	-	-	-	-	-	-
Act 44 Payments										
Transit Capital/Other Payments	425,000	425,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Transit Capital/Other Payments Sources										
Turnpike Cash	5,000	5,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Tax-Exempt Subordinate Bond Proceeds	420,000	420,000	-	-	-	-	-	-	-	-
Transit Capital/Other Total Sources	425,000	425,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
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	450,000	450,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Total Act 44 Sources	450,000	450,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Remaining Turnpike Cash	329,029	287,156	227,167	272,326	260,885	265,841	269,478	270,817	273,413	275,380
Turnpike General Reserve Fund (Remaining Cash/Liquidity)	452,046	437,514	386,316	437,000	432,365	445,336	456,469	465,599	474,911	484,409
Supplemental Capital Fund										
Starting Balance	-	-	94,709	159,728	20,000	86,045	136,996	163,359	193,339	210,981
Deposits (+)	-	107,000	73,000	20,000	66,045	50,951	26,363	29,979	17,643	36,272
Draws (-)	-	12,337	11,847	159,728	-	-	-	-	-	-
Reconciliation (+)	-	45	3,867	-	-	-	-	-	-	-
Ending Balance	-	94,709	159,728	20,000	86,045	136,996	163,359	193,339	210,981	247,253
Gen. Res. Fund/Liquidity Req. + Suppl. Capital Fund	452,046	532,223	546,044	457,000	518,410	582,332	619,828	658,937	685,892	731,662
Coverage Calculations										
Mainline Debt Service Coverage										
Senior Lien										
Pledged Revenues	881,741	1,203,854	1,249,031	1,287,779	1,284,543	1,351,273	1,414,733	1,483,219	1,540,768	1,606,282
Debt Service	(234,905)	(311,234)	(372,520)	(424,989)	(485,768)	(536,091)	(553,472)	(574,406)	(607,376)	(654,613)
Coverage	3.75 x	3.87 x	3.35 x	3.03 x	2.64 x	2.52 x	2.56 x	2.58 x	2.54 x	2.45 x
Subordinate Lien										
Pledged Revenues	887,255	1,208,996	1,256,224	1,295,123	1,291,923	1,358,690	1,422,187	1,490,711	1,548,297	1,613,849
Debt Service	(496,216)	(643,216)	(707,257)	(773,300)	(873,101)	(946,831)	(984,258)	(1,009,643)	(1,052,607)	(1,100,974)
Coverage	1.79 x	1.88 x	1.78 x	1.67 x	1.48 x	1.43 x	1.44 x	1.48 x	1.47 x	1.47 x
Subordinate Special Revenue Lien										
Pledged Revenues	887,717	1,209,437	1,256,734	1,295,622	1,292,425	1,359,195	1,422,694	1,491,221	1,548,809	1,614,364
Debt Service	(545,034)	(692,602)	(760,684)	(829,883)	(931,015)	(1,005,273)	(1,060,197)	(1,087,112)	(1,131,854)	(1,178,594)
Coverage	1.63 x	1.75 x	1.65 x	1.56 x	1.39 x	1.35 x	1.34 x	1.37 x	1.37 x	1.37 x

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	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Turnpike Operating Income										
Adjusted Gross Toll Revenues (+)	2,116,393	2,201,486	2,279,097	2,365,951	2,455,615	2,554,387	2,643,261	2,741,438	2,842,678	2,954,384
Gross Non-Toll Revenues (+)	51,630	52,146	52,668	53,195	53,727	54,264	54,806	55,355	55,908	56,467
Gross Operating Revenues (+)	2,168,023	2,253,632	2,331,765	2,419,146	2,509,342	2,608,651	2,698,067	2,796,793	2,898,586	3,010,851
Operating Expense (-)	515,273	525,578	536,090	546,811	557,748	568,903	580,281	591,886	603,724	615,798
Interest Income (Senior Lien and GRF earnings) (+)	21,270	21,376	21,483	21,590	21,698	21,807	21,916	22,026	22,136	22,246
Net Turnpike Revenues Before Debt Service	1,674,020	1,749,431	1,817,158	1,893,925	1,973,292	2,061,555	2,139,703	2,226,932	2,316,998	2,417,299
Senior Turnpike Revenue Bond Debt Service	687,735	713,636	738,917	752,747	778,970	796,208	809,751	820,345	830,820	800,469
Net Income Before Capital Expense and General Reserve	986,285	1,035,795	1,078,241	1,141,177	1,194,322	1,265,348	1,329,951	1,406,587	1,486,178	1,616,830
Capital Funding										
Construction Fund Beginning Balance	5,000	15,000	20,000	-	-	-	-	-	-	-
Newly Sized Senior Bond Proceeds (+)	396,278	313,140	257,639	293,050	258,911	200,089	166,591	112,330	124,458	-
Federal Fund Reimb. (+)	15,000	20,000	-	-	-	-	-	-	-	-
PAYGO Contribution (+)	350,000	425,000	450,000	500,000	550,000	625,000	675,000	746,093	751,133	893,103
Additional PAYGO Transfer from Gen. Res. Fund (+)	-	-	-	-	-	-	-	-	-	-
PAYGO Reimbursement to Gen. Res. Fund (-)	-	-	-	-	-	-	-	-	-	-
Supplemental Capital Fund Contri. (+)	-	-	-	30,000	150,000	139,537	27,196	25,986	113,609	194,123
Capital Expenditure (-)	751,278	753,140	727,639	823,050	958,911	964,626	868,786	884,409	989,200	1,087,226
Reconciliation (+)	-	-	-	-	-	-	-	-	-	-
Construction Fund Ending Balance	15,000	20,000	-	-	-	-	-	-	-	-
Cash Balances										
Cash Beginning Balance (excl. Liquidity)	275,380	277,295	278,616	280,882	282,425	283,892	284,658	286,627	287,883	289,055
Net Income (+)	986,285	1,035,795	1,078,241	1,141,177	1,194,322	1,265,348	1,329,951	1,406,587	1,486,178	1,616,830
PAYGO Contribution (-)	350,000	425,000	450,000	500,000	550,000	625,000	675,000	746,093	751,133	893,103
Additional Cash Payments for OPEB, DSRF, Defeasance (-)	-	-	-	-	-	-	-	-	-	-
Additional Transfer to Res. Main. Fund for Capital Funding (-)	-	-	-	-	-	-	-	-	-	-
PAYGO Reimbursement to Gen. Res. Fund (+)	-	-	-	-	-	-	-	-	-	-
Supplemental Capital Fund Deposit (-)	55,208	26,106	39,486	44,233	38,327	24,786	30,313	29,166	116,853	197,431
Other Transfers (-)	-	-	-	-	-	-	-	-	-	-
Reconciliation (+)	-	-	-	-	-	-	-	-	-	-
Liquidity Requirement Cashflow Set-aside (-)	7,774	8,561	7,813	8,738	9,020	9,931	8,942	9,873	10,179	11,227
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)	856,766	861,504	867,639	877,170	887,483	897,605	908,437	916,165	903,978	812,207
Liquidity Balance	216,802	225,363	233,176	241,915	250,934	260,865	269,807	279,679	289,859	301,085
Cash Ending Balance (excl. Liquidity)	856,766	861,504	867,639	877,170	887,483	897,605	908,437	916,165	903,978	812,207
Subordinate Bonds Debt Service	450,295	451,604	453,181	458,910	466,086	470,055	475,803	479,866	481,767	413,733
Subordinate Special Revenue Bonds Debt Service	79,176	81,285	83,576	85,834	87,504	92,892	96,007	98,415	83,156	59,067
Net Funds Remaining Before Act 44 Payments	327,295	328,616	330,882	332,425	333,892	334,658	336,627	337,883	339,055	339,407

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	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Act 44 Payment Sources										
Net Funds Remaining Before Act 44 Payments	327,295	328,616	330,882	332,425	333,892	334,658	336,627	337,883	339,055	339,407
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	277,295	278,616	280,882	282,425	283,892	284,658	286,627	287,883	289,055	289,407
Turnpike General Reserve Fund (Remaining Cash/Liquidity)	494,097	503,979	514,059	524,340	534,827	545,523	556,434	567,562	578,913	590,492
Supplemental Capital Fund										
Starting Balance	247,253	302,462	328,568	368,054	382,287	270,614	155,864	158,981	162,161	165,404
Deposits (+)	55,208	26,106	39,486	44,233	38,327	24,786	30,313	29,166	116,853	197,431
Draws (-)	-	-	-	30,000	150,000	139,537	27,196	25,986	113,609	194,123
Reconciliation (+)	-	-	-	-	-	-	-	-	-	-
Ending Balance	302,462	328,568	368,054	382,287	270,614	155,864	158,981	162,161	165,404	168,712
Gen. Res. Fund/Liquidity Req. + Suppl. Capital Fund	796,559	832,547	882,113	906,627	805,441	701,387	715,415	729,723	744,317	759,204
Coverage Calculations										
Mainline Debt Service Coverage										
Senior Lien										
Pledged Revenues	1,674,020	1,749,431	1,817,158	1,893,925	1,973,292	2,061,555	2,139,703	2,226,932	2,316,998	2,417,299
Debt Service	(687,735)	(713,636)	(738,917)	(752,747)	(778,970)	(796,208)	(809,751)	(820,345)	(830,820)	(800,469)
Coverage	2.43 x	2.45 x	2.46 x	2.52 x	2.53 x	2.59 x	2.64 x	2.71 x	2.79 x	3.02 x
Subordinate Lien										
Pledged Revenues	1,681,587	1,756,998	1,824,725	1,901,492	1,980,859	2,069,122	2,147,270	2,234,499	2,324,565	2,424,866
Debt Service	(1,138,030)	(1,165,240)	(1,192,099)	(1,211,658)	(1,245,056)	(1,266,263)	(1,285,555)	(1,300,212)	(1,312,587)	(1,214,202)
Coverage	1.48 x	1.51 x	1.53 x	1.57 x	1.59 x	1.63 x	1.67 x	1.72 x	1.77 x	2.00 x
Subordinate Special Revenue Lien										
Pledged Revenues	1,682,102	1,757,513	1,825,240	1,902,007	1,981,374	2,069,637	2,147,785	2,235,014	2,325,080	2,425,381
Debt Service	(1,217,206)	(1,246,524)	(1,275,674)	(1,297,492)	(1,332,561)	(1,359,154)	(1,381,561)	(1,398,627)	(1,395,743)	(1,273,269)
Coverage	1.38 x	1.41 x	1.43 x	1.47 x	1.49 x	1.52 x	1.55 x	1.60 x	1.67 x	1.90 x

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

	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050
Turnpike Operating Income										
Adjusted Gross Toll Revenues (+)	3,054,592	3,165,142	3,278,368	3,402,543	3,513,107	3,635,396	3,761,078	3,899,884	4,022,923	4,159,240
Gross Non-Toll Revenues (+)	57,032	57,602	58,178	58,760	59,348	59,941	60,540	61,146	61,757	62,375
Gross Operating Revenues (+)	3,111,624	3,222,744	3,336,546	3,461,303	3,572,455	3,695,337	3,821,618	3,961,030	4,084,680	4,221,615
Operating Expense (-)	628,114	640,677	653,490	666,560	679,891	693,489	707,359	721,506	735,936	750,655
Interest Income (Senior Lien and GRF earnings) (+)	22,358	22,469	22,582	22,695	22,808	22,922	23,037	23,152	23,268	23,384
Net Turnpike Revenues Before Debt Service	2,505,867	2,604,537	2,705,638	2,817,438	2,915,371	3,024,770	3,137,296	3,262,676	3,372,012	3,494,344
Senior Turnpike Revenue Bond Debt Service	801,620	795,043	801,435	802,322	779,318	704,129	675,196	615,793	592,936	563,565
Net Income Before Capital Expense and General Reserve	1,704,247	1,809,494	1,904,203	2,015,115	2,136,053	2,320,641	2,462,100	2,646,883	2,779,076	2,930,779
Capital Funding										
Construction Fund Beginning Balance	-	-	-	-	-	-	-	-	-	-
Newly Sized Senior Bond Proceeds (+)	-	-	-	-	-	-	-	-	-	-
Federal Fund Reimb. (+)	-	-	-	-	-	-	-	-	-	-
PAYGO Contribution (+)	910,965	929,184	947,768	966,723	986,058	1,005,779	1,025,894	1,046,412	1,067,340	1,088,687
Additional PAYGO Transfer from Gen. Res. Fund (+)	-	-	-	-	-	-	-	-	-	-
PAYGO Reimbursement to Gen. Res. Fund (-)	-	-	-	-	-	-	-	-	-	-
Supplemental Capital Fund Contri. (+)	205,736	302,564	512,140	642,544	815,396	1,000,943	1,175,132	1,377,538	1,491,562	1,685,266
Capital Expenditure (-)	1,116,701	1,231,749	1,459,908	1,609,268	1,801,453	2,006,722	2,201,026	2,423,950	2,558,903	2,773,953
Reconciliation (+)	-	-	-	-	-	-	-	-	-	-
Construction Fund Ending Balance	-	-	-	-	-	-	-	-	-	-
Cash Balances										
Cash Beginning Balance (excl. Liquidity)	289,407	291,139	292,073	292,980	293,037	294,705	295,456	296,127	295,752	297,224
Net Income (+)	1,704,247	1,809,494	1,904,203	2,015,115	2,136,053	2,320,641	2,462,100	2,646,883	2,779,076	2,930,779
PAYGO Contribution (-)	910,965	929,184	947,768	966,723	986,058	1,005,779	1,025,894	1,046,412	1,067,340	1,088,687
Additional Cash Payments for OPEB, DSRF, Defeasance (-)	-	-	-	-	-	-	-	-	-	-
Additional Transfer to Res. Main. Fund for Capital Funding (-)	-	-	-	-	-	-	-	-	-	-
PAYGO Reimbursement to Gen. Res. Fund (+)	-	-	-	-	-	-	-	-	-	-
Supplemental Capital Fund Deposit (-)	209,110	306,007	515,649	646,127	819,049	1,004,665	1,178,932	1,381,418	1,495,518	1,689,293
Other Transfers (-)	-	-	-	-	-	-	-	-	-	-
Reconciliation (+)	-	-	-	-	-	-	-	-	-	-
Liquidity Requirement Cashflow Set-aside (-)	10,077	11,112	11,380	12,476	11,115	12,288	12,628	13,941	12,365	13,693
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	-	-	-	-	-
Cash Ending Balance (excl. Liquidity)	871,583	862,412	729,561	690,851	620,951	600,181	547,669	508,806	507,172	443,896
Liquidity Balance	311,162	322,274	333,655	346,130	357,245	369,534	382,162	396,103	408,468	422,161
Cash Ending Balance (excl. Liquidity)	871,583	862,412	729,561	690,851	620,951	600,181	547,669	508,806	507,172	443,896
Subordinate Bonds Debt Service	470,435	467,240	347,739	323,160	271,069	254,725	201,542	163,054	159,948	96,251
Subordinate Special Revenue Bonds Debt Service	60,009	53,100	38,842	24,654	5,177	-	-	-	-	-
Net Funds Remaining Before Act 44 Payments	341,139	342,073	342,980	343,037	344,705	345,456	346,127	345,752	347,224	347,645

Pennsylvania Turnpike Commission
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(\$000) Fiscal Year End 5/31

	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050
Act 44 Payment Sources										
Net Funds Remaining Before Act 44 Payments	341,139	342,073	342,980	343,037	344,705	345,456	346,127	345,752	347,224	347,645
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	291,139	292,073	292,980	293,037	294,705	295,456	296,127	295,752	297,224	297,645
Turnpike General Reserve Fund (Remaining Cash/Liquidity)	602,302	614,348	626,634	639,167	651,951	664,990	678,289	691,855	705,692	719,806
Supplemental Capital Fund										
Starting Balance	168,712	172,086	175,528	179,037	182,620	186,273	189,995	193,795	197,675	201,631
Deposits (+)	209,110	306,007	515,649	646,127	819,049	1,004,665	1,178,932	1,381,418	1,495,518	1,689,293
Draws (-)	205,736	302,564	512,140	642,544	815,396	1,000,943	1,175,132	1,377,538	1,491,562	1,685,266
Reconciliation (+)	-	-	-	-	-	-	-	-	-	-
Ending Balance	172,086	175,528	179,037	182,620	186,273	189,995	193,795	197,675	201,631	205,658
Gen. Res. Fund/Liquidity Req. + Suppl. Capital Fund	774,388	789,876	805,672	821,787	838,224	854,985	872,084	889,530	907,323	925,464
Coverage Calculations										
Mainline Debt Service Coverage										
Senior Lien										
Pledged Revenues	2,505,867	2,604,537	2,705,638	2,817,438	2,915,371	3,024,770	3,137,296	3,262,676	3,372,012	3,494,344
Debt Service	(801,620)	(795,043)	(801,435)	(802,322)	(779,318)	(704,129)	(675,196)	(615,793)	(592,936)	(563,565)
Coverage	3.13 x	3.28 x	3.38 x	3.51 x	3.74 x	4.30 x	4.65 x	5.30 x	5.69 x	6.20 x
Subordinate Lien										
Pledged Revenues	2,513,434	2,612,104	2,713,205	2,825,005	2,922,938	3,032,337	3,144,863	3,270,243	3,379,579	3,501,911
Debt Service	(1,272,055)	(1,262,282)	(1,149,174)	(1,125,482)	(1,050,387)	(958,854)	(876,738)	(778,847)	(752,883)	(659,816)
Coverage	1.98 x	2.07 x	2.36 x	2.51 x	2.78 x	3.16 x	3.59 x	4.20 x	4.49 x	5.31 x
Subordinate Special Revenue Lien										
Pledged Revenues	2,513,949	2,612,619	2,713,720	2,825,520	2,923,453	3,032,337	3,144,863	3,270,243	3,379,579	3,501,911
Debt Service	(1,332,064)	(1,315,382)	(1,188,016)	(1,150,136)	(1,055,563)	(958,854)	(876,738)	(778,847)	(752,883)	(659,816)
Coverage	1.89 x	1.99 x	2.28 x	2.46 x	2.77 x	3.16 x	3.59 x	4.20 x	4.49 x	5.31 x


Pennsylvania Turnpike Commission
Act 44 Financial Plan
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	2051	2052	2053	2054	2055	2056	2057
Turnpike Operating Income							
Adjusted Gross Toll Revenues (+)	4,299,245	4,454,071	4,590,659	4,742,184	4,931,871	5,129,146	5,334,312
Gross Non-Toll Revenues (+)	62,999	63,629	64,265	64,908	65,557	66,212	66,874
Gross Operating Revenues (+)	4,362,244	4,517,700	4,654,924	4,807,092	4,997,428	5,195,358	5,401,186
Operating Expense (-)	765,668	780,981	796,601	812,533	828,784	845,359	862,267
Interest Income (Senior Lien and GRF earnings) (+)	23,501	23,618	23,737	23,855	23,974	24,094	24,215
Net Turnpike Revenues Before Debt Service	3,620,077	3,760,337	3,882,059	4,018,414	4,192,619	4,374,093	4,563,135
Senior Turnpike Revenue Bond Debt Service	468,741	468,915	424,743	402,125	337,833	300,054	258,466
Net Income Before Capital Expense and General Reserve	3,151,335	3,291,422	3,457,317	3,616,289	3,854,785	4,074,040	4,304,669
Capital Funding							
Construction Fund Beginning Balance	-	-	-	-	-	-	-
Newly Sized Senior Bond Proceeds (+)	-	-	-	-	-	-	-
Federal Fund Reimb. (+)	-	-	-	-	-	-	-
PAYGO Contribution (+)	1,110,461	1,132,670	1,155,324	1,178,430	1,201,999	1,226,039	1,250,559
Additional PAYGO Transfer from Gen. Res. Fund (+)	-	-	-	-	-	-	-
PAYGO Reimbursement to Gen. Res. Fund (-)	-	-	-	-	-	-	-
Supplemental Capital Fund Contri. (+)	1,893,307	2,073,389	2,232,725	2,368,208	2,582,758	2,777,585	2,983,281
Capital Expenditure (-)	3,003,768	3,206,059	3,388,049	3,546,638	3,784,757	4,003,624	4,233,840
Reconciliation (+)	-	-	-	-	-	-	-
Construction Fund Ending Balance	-	-	-	-	-	-	-
Cash Balances							
Cash Beginning Balance (excl. Liquidity)	297,645	297,978	297,117	298,371	298,431	294,980	291,082
Net Income (+)	3,151,335	3,291,422	3,457,317	3,616,289	3,854,785	4,074,040	4,304,669
PAYGO Contribution (-)	1,110,461	1,132,670	1,155,324	1,178,430	1,201,999	1,226,039	1,250,559
Additional Cash Payments for OPEB, DSRF, Defeasance (-)	-	-	-	-	-	-	-
Additional Transfer to Res. Main. Fund for Capital Funding (-)	-	-	-	-	-	-	-
PAYGO Reimbursement to Gen. Res. Fund (+)	-	-	-	-	-	-	-
Supplemental Capital Fund Deposit (-)	1,897,413	2,077,586	2,237,016	2,372,582	2,587,204	2,782,106	2,987,896
Other Transfers (-)	-	-	-	-	-	-	-
Reconciliation (+)	-	-	-	-	-	-	-
Liquidity Requirement Cashflow Set-aside (-)	14,063	15,546	13,722	15,217	19,034	19,793	20,583
FRN Redemptions	-	-	-	-	-	-	-
Subordinate Revenue Bonds Interest Earnings (+)	7,567	7,567	-	-	-	-	-
Subordinate Special Revenue Bonds Interest Earnings (+)	-	-	-	-	-	-	-
Cash Ending Balance (excl. Liquidity)	434,610	371,165	348,371	348,431	344,980	341,082	336,714
Liquidity Balance	436,224	451,770	465,492	480,709	499,743	519,536	540,119
Cash Ending Balance (excl. Liquidity)	434,610	371,165	348,371	348,431	344,980	341,082	336,714
Subordinate Bonds Debt Service	86,632	24,048	-	-	-	-	-
Subordinate Special Revenue Bonds Debt Service	-	-	-	-	-	-	-
Net Funds Remaining Before Act 44 Payments	347,978	347,117	348,371	348,431	344,980	341,082	336,714

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	2051	2052	2053	2054	2055	2056	2057
Act 44 Payment Sources							
Net Funds Remaining Before Act 44 Payments	347,978	347,117	348,371	348,431	344,980	341,082	336,714
Subordinate Bond Proceeds	-	-	-	-	-	-	-
Act 44 Payments							
Transit Capital/Other Payments	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
Tax-Exempt Subordinate Bond Proceeds	-	-	-	-	-	-	-
Transit Capital/Other Total Sources	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
Transit Operations Sources							
Turnpike Cash	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
Total Act 44 Payments	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
Remaining Turnpike Cash	297,978	297,117	298,371	298,431	294,980	291,082	286,714
Turnpike General Reserve Fund (Remaining Cash/Liquidity)	734,203	748,887	763,864	779,140	794,723	810,618	826,832
Supplemental Capital Fund							
Starting Balance	205,658	209,764	213,962	218,253	222,627	227,073	231,593
Deposits (+)	1,897,413	2,077,586	2,237,016	2,372,582	2,587,204	2,782,106	2,987,896
Draws (-)	1,893,307	2,073,389	2,232,725	2,368,208	2,582,758	2,777,585	2,983,281
Reconciliation (+)	-	-	-	-	-	-	-
Ending Balance	209,764	213,962	218,253	222,627	227,073	231,593	236,208
Gen. Res. Fund/Liquidity Req. + Suppl. Capital Fund	943,967	962,848	982,117	1,001,768	1,021,796	1,042,212	1,063,040
Coverage Calculations							
Mainline Debt Service Coverage							
Senior Lien							
Pledged Revenues	3,620,077	3,760,337	3,882,059	4,018,414	4,192,619	4,374,093	4,563,135
Debt Service	(468,741)	(468,915)	(424,743)	(402,125)	(337,833)	(300,054)	(258,466)
Coverage	7.72 x	8.02 x	9.14 x	9.99 x	12.41 x	14.58 x	17.65 x
Subordinate Lien							
Pledged Revenues	3,627,644	3,767,904	3,882,059	4,018,414	4,192,619	4,374,093	4,563,135
Debt Service	(555,373)	(492,964)	(424,743)	(402,125)	(337,833)	(300,054)	(258,466)
Coverage	6.53 x	7.64 x	9.14 x	9.99 x	12.41 x	14.58 x	17.65 x
Subordinate Special Revenue Lien							
Pledged Revenues	3,627,644	3,767,904	3,882,059	4,018,414	4,192,619	4,374,093	4,563,135
Debt Service	(555,373)	(492,964)	(424,743)	(402,125)	(337,833)	(300,054)	(258,466)
Coverage	6.53 x	7.64 x	9.14 x	9.99 x	12.41 x	14.58 x	17.65 x

B. Financial Management Policies

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

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. Measurements of Future Flexibility

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

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

- a. Historical pro forma debt service coverage ratio for the most recent fiscal year was not less than 1.75.
- b. Net revenues of the Commission during the preceding fiscal year were at least 130% of the maximum annual debt service and the projected debt service coverage ratio is not less than 1.30.

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

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

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

F. Sale of Bonds:

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

The Commission shall require its financial advisor in conjunction with the senior underwriter(s) to prepare a marketing plan that includes recommended distribution rules (that will enhance the marketing effort),

descriptions of similar transactions in the market place and their rates of interest, prevailing market information and any other financial information deemed relevant.

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

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

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

5. Turnover

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

D. PERFORMANCE BENCHMARK:

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.
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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. Selecting and Procuring Interest Rate Swaps:

A. Review of Proposals

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

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

- (i) The appropriateness of the Swap, or the modification, amendment, novation or optional termination of the existing Swap (for purposes hereof, the "transaction"), for the Commission based on the balance of risks and rewards presented by the proposed transaction, including a detailed description of the transactional structure, a description of the risks it presents, and risk mitigation measures;
- (ii) The legal framework for the transaction within the context of Pennsylvania statutes, Commission ordinances, and relevant indenture and contractual requirements (including those contained in credit enhancement agreements), as well as any implications of the transaction under federal tax law;
- (iii) Potential effects that the transaction may have on the credit ratings of any Commission obligations assigned by the rating agencies;
- (iv) The potential impact of the transaction on any areas where the Commission's capacity is limited, now or in the future, including the use of variable-rate debt, bank liquidity facilities or letters of credit, and bond insurance;

- (v) The ability of the Commission to handle any administrative burden that may be imposed by the transaction, including accounting and financial reporting requirements;
- (vi) Information reporting requirements, if any; and
- (vii) Other implications of the proposed transaction as warranted.

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

B. Financing Team

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

C. Underwriter Selection

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

D. Counterparty Selection

The Commission may use a competitive or a negotiated process to select a Swap counterparty and price a Swap as it believes business, market or competitive conditions justify such a process. 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.