

*In the opinion of Bond Counsel, interest on the 2006 Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, subject to the conditions described in “TAX MATTERS.” Interest on the 2006 Bonds will not be a specific preference item for purposes of the individual and corporate alternative minimum taxes; however, such interest may be subject to certain other federal taxes affecting corporate holders of the 2006 Bonds. Under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date hereof, the 2006 Bonds are exempt from Pennsylvania personal property taxes and the interest on the 2006 Bonds is exempt from Pennsylvania income tax and Pennsylvania corporate net income tax. For a more complete discussion see “TAX MATTERS.”*

**\$353,865,000**  
**PENNSYLVANIA TURNPIKE COMMISSION**  
**TURNPIKE REVENUE BONDS**  
**\$118,015,000 Turnpike Fixed Rate Revenue Bonds, Series A of 2006**  
**\$117,925,000 Turnpike Multi-Modal Revenue Bonds, Series B of 2006**  
**\$117,925,000 Turnpike Multi-Modal Revenue Bonds, Series C of 2006**

**Dated: Date of Delivery****Due: December 1, as shown on inside front cover**

The Pennsylvania Turnpike Commission’s (the “Commission”) Turnpike Fixed Rate Revenue Bonds, Series A of 2006 (the “2006A Bonds” or “Fixed Rate Bonds”), Turnpike Multi-Modal Revenue Bonds, Series B of 2006 (the “2006B Bonds”) and Turnpike Multi-Modal Revenue Bonds, Series C of 2006 (the “2006C Bonds”, the 2006B Bonds and 2006C Bonds are hereinafter referred to collectively as the “Multi-Modal Bonds”; the Multi-Modal Bonds and the Fixed Rate Bonds are herein referred to collectively as the “2006 Bonds”) are being issued pursuant to Supplemental Trust Indenture No. 8 dated as of June 1, 2006 (the “Supplemental Indenture No. 8”) between the Commission and U.S. Bank National Association, Philadelphia, PA, as trustee (the “Trustee”) under an Amended and Restated Trust Indenture dated as of March 1, 2001 between the Commission and the Trustee (as amended and supplemented, the “Indenture”). The Fixed Rate Bonds will bear interest at the rates set forth on the inside front cover hereof from the date of initial delivery, payable on June 1 and December 1 of each year, commencing December 1, 2006.

The Multi-Modal Bonds will mature in the aggregate principal amounts set forth on the inside front cover hereof. The Multi-Modal Bonds will be issued initially as Weekly Rate Bonds. The Multi-Modal Bonds will bear interest at a Weekly Rate to be established by the Underwriters from their date of initial delivery to but excluding the first day of the next Weekly Interest Period for the respective series of Multi-Modal Bonds, payable on July 3, 2006 and on each Interest Payment Date (as defined herein) thereafter until maturity or earlier redemption. Thereafter, for each Weekly Interest Period, the Multi-Modal Bonds will bear interest at the Weekly Rate determined by the Remarketing Agent in accordance with the procedures detailed herein. (See “DESCRIPTION OF THE 2006 BONDS – Interest on the Multi-Modal Bond.”) The Multi-Modal Bonds may bear interest at an Auction Rate, Daily Rate, Weekly Rate, Monthly Rate, Short-Term Rate, Long-Term Rate or Fixed Rate. While a Multi-Modal Bond bears interest at any of those rates, such Multi-Modal Bond will be deemed to be operating in an Auction Rate Period, a Daily Rate Period, a Weekly Rate Period, a Monthly Rate Period, a Short-Term Rate Period, a Long-Term Rate Period or a Fixed Rate Period, respectively. All Multi-Modal Bonds of each series may be in only one Interest Rate Period at the same time. The Interest Rate Period in which the Multi-Modal Bonds are operating may be changed from time to time. Initially, all of the Multi-Modal Bonds will be issued in a Weekly Rate Period and will remain in that Interest Rate Period until converted to another Interest Rate Period as described herein.

The Fixed Rate Bonds will be issued in Authorized Denominations of \$5,000 and any integral multiple thereof. The Multi-Modal Bonds will be issued in the following Authorized Denominations: Daily Rate Bonds, Weekly Rate Bonds, Monthly Rate Bonds, Short-Term Rate Bonds and Long-Term Rate Bonds - \$100,000 and any integral multiple of \$5,000 in excess of \$100,000.

The 2006 Bonds will be issued in book-entry form registered in the name of Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”). The payment of the principal of and premium, if any, and interest on the 2006 Bonds will be made by the Trustee directly to Cede & Co., as nominee for DTC, as registered owner of the 2006 Bonds, to be subsequently disbursed to DTC Participants and thereafter to beneficial owners of the 2006 Bonds, all as described herein. Purchasers of 2006 Bonds will not receive physical delivery of certificates representing their ownership interests in the 2006 Bonds. See “DESCRIPTION OF THE 2006 BONDS,” and “BOOK-ENTRY ONLY SYSTEM.”

The 2006 Bonds are subject to redemption prior to maturity as herein described. See “DESCRIPTION OF THE 2006 BONDS—Redemption of the 2006A Bonds and Redemption of the Multi-Modal Bonds.” The Multi-Modal Bonds (other than a series bearing interest at a Fixed Rate) are subject to optional and mandatory tender for purchase as described herein (Auction Rate Bonds are only subject to mandatory tender and only on a Conversion Date). See “DESCRIPTION OF THE 2006 BONDS – Tenders and Purchase of Multi-Modal Bonds.” The Interest Rate Period for each series of Multi-Modal Bonds is subject to conversion to a different Interest Rate Period as described herein, in which case such series of Multi-Modal Bonds will be subject to mandatory tender for purchase. See “DESCRIPTION OF THE 2006 BONDS – Conversions Between Rate Periods – Tenders and Purchase of Multi-Modal Bonds.”

Payment of the principal of and interest on the 2006 Bonds when due will be insured by a Financial Guaranty Insurance Policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the 2006 Bonds. See “BOND INSURANCE.”

**Ambac**

Any Multi-Modal Bond bearing interest at a Weekly Rate during the initial Weekly Rate Period that is tendered or deemed tendered for purchase and not remarketed by the purchase date will be purchased (subject to certain conditions described herein, see “DESCRIPTION OF THE 2006 BONDS – Tenders and Purchase of Multi-Modal Bonds”) pursuant to separate Standby Bond Purchase Agreements for each Series of Multi-Modal Bonds by

**JPMorgan Chase Bank, National Association**

THE 2006 BONDS ARE LIMITED OBLIGATIONS OF THE COMMISSION AND SHALL NOT BE DEEMED TO BE A DEBT OF THE COMMONWEALTH OF PENNSYLVANIA (THE “COMMONWEALTH”) OR A PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH, BUT THE 2006 BONDS SHALL BE PAYABLE SOLELY FROM THE TRUST ESTATE (AS DEFINED HEREIN) WHICH CONSISTS PRIMARILY OF TOLLS FROM THE SYSTEM (AS DEFINED HEREIN). THE COMMONWEALTH IS NOT OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THE PAYMENT OF THE 2006 BONDS. THE COMMISSION HAS NO TAXING POWER.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

**Series 2006A Bonds**  
**Mesirow Financial, Inc.**

**Commonwealth Securities and  
Investments, Inc.**

**Mellon Financial Markets, LLC.**

**Wachovia Bank,  
National Association**

**Series 2006B Bonds**  
**PNC Capital Markets, LLC**

**Series 2006C Bonds**  
**RBC Capital Markets**

The 2006 Bonds are being offered when, as and if issued and accepted by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, to certain legal matters being passed upon by Dilworth Paxson LLP, Philadelphia, Pennsylvania, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Underwriters by Klett Rooney Lieber & Schorling, A Professional Corporation, Pittsburgh, Pennsylvania, Counsel for the Underwriters. Certain legal matters will be passed upon for the Bank by Greenberg Traurig LLP, Philadelphia, Pennsylvania, counsel to the Bank. Certain legal matters will be passed upon for the Commission by its Chief Counsel, Doreen A. McCall, Esquire. It is anticipated that the 2006 Bonds will be available for delivery in New York, New York on or about June 22, 2006.

**\$353,865,000**  
**PENNSYLVANIA TURNPIKE COMMISSION**  
**TURNPIKE REVENUE BONDS**  
**SERIES OF 2006**

**\$118,015,000 TURNPIKE FIXED RATE REVENUE BONDS, SERIES A OF 2006**  
**MATURITIES, AMOUNTS, INTEREST RATES AND PRICES OR YIELDS**

Year (December 1)	Principal Amount	Interest Rate	Yield	Price*
2022	\$20,065,000.00	5.000%	4.350%	105.198%
2023	22,790,000.00	5.000%	4.380%	104.951%
2024	23,885,000.00	5.000%	4.400%	104.786%
2025	25,035,000.00	5.000%	4.410%	104.704%
2026	26,240,000.00	5.000%	4.420%	104.622%

\*Priced to par call

(Plus Accrued Interest)

**\$117,925,000 TURNPIKE MULTI-MODAL REVENUE BONDS, SERIES B OF 2006**  
**\$117,925,000 TURNPIKE MULTI-MODAL REVENUE BONDS, SERIES C OF 2006**

MATURITIES and AMOUNTS

Year (December 1)	<u>2006B</u> Principal Amount	Year (December 1)	<u>2006C</u> Principal Amount
2022	\$117,925,000	2022	\$117,925,000

**(Price 100%)**

The Series 2006B and 2006C Bonds will bear interest from the date of original delivery at a Weekly Rate established by the Underwriters, prior to the date of delivery. Thereafter, the Series 2006B and 2006C Bonds will bear interest at the applicable Weekly Rate, until a conversion to an Auction Rate, Daily Rate, Monthly Rate, Short-Term Rate, Long-Term Rate or Fixed Rate as described herein. Interest will be payable initially on July 3, 2006, and thereafter, while Weekly Rate Bonds, on the first Business Day of each month.

# PENNSYLVANIA TURNPIKE COMMISSION

## COMMISSIONERS

MITCHELL RUBIN  
Chairman

TIMOTHY J. CARSON  
Vice Chairman

J. WILLIAM LINCOLN  
Secretary/Treasurer

ALLEN D. BIEHLER

PASQUALE T. DEON, SR.

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JOSEPH G. BRIMMEIER  
Chief Executive Officer

KEVIN F. LONGENBACH  
Chief Operating Officer

J. BLAIR FISHBURN  
Chief Financial Officer

ALEXANDER R. JANSEN  
Chief Engineer

DOREEN A. MCCALL  
Chief Counsel

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U. S. BANK NATIONAL ASSOCIATION  
Trustee, Tender Agent and Authenticating Agent

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HOPKINS & COMPANY  
Financial Advisor

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No dealer, broker, salesman or other person has been authorized by the Commission or the Underwriters to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any or either of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2006 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Commission and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by, and is not to be construed as representations by, the Underwriters. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in any of the information set forth herein since the date hereof.

The 2006 Bonds are not and will not be registered under the Securities Act of 1933, or under any state securities laws, and the Indenture has not been and will not be qualified under the Trust Indenture Act of 1939, as amended, because of available exemptions therefrom. Neither the Securities and Exchange Commission nor any federal, state, municipal, or other governmental agency will pass upon the accuracy, completeness, or adequacy of this Official Statement.

The Underwriters have provided the following sentence for inclusion in this official statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2006 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

**THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY, OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE 2006 BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.**

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**OFFICIAL STATEMENT  
OF THE  
PENNSYLVANIA TURNPIKE COMMISSION  
RELATING TO  
\$353,865,000  
TURNPIKE REVENUE BONDS**

**PENNSYLVANIA TURNPIKE COMMISSION**  
\$118,015,000 Turnpike Fixed Rate Revenue Bonds, Series A of 2006  
\$117,925,000 Turnpike Multi-Modal Revenue Bonds, Series B of 2006  
\$117,925,000 Turnpike Multi-Modal Revenue Bonds, Series C of 2006

**INTRODUCTION**

This Official Statement, which includes the cover page, inside front cover page and the Appendices hereto, is furnished by the Pennsylvania Turnpike Commission (the “Commission”) in connection with the issuance of \$353,865,000 aggregate principal amount of Pennsylvania Turnpike Commission, Turnpike Revenue Bonds, issued in three separate Series: (i) \$118,015,000 Turnpike Fixed Rate Revenue Bonds, Series A of 2006 (the “2006A Bonds” or the “Fixed Rate Bonds”), (ii) \$117,925,000 Turnpike Multi-Modal Revenue Bonds, Series B of 2006 (the “2006B Bonds”), and (iii) \$117,925,000 Turnpike Multi-Modal Revenue Bonds, Series C of 2006 (the “2006C Bonds”; the 2006B Bonds and 2006C Bonds are hereinafter referred to collectively as the “Multi-Modal Bonds”; the Multi-Modal Bonds and the Fixed Rate Bonds are herein referred to collectively as the “2006 Bonds”; and the term “2006 Bond” shall mean any of the 2006 Bonds).

All capitalized terms not otherwise defined herein shall have the same meanings ascribed to them in the definitions set forth in “APPENDIX B - SUMMARIES OF CERTAIN PROVISIONS OF THE INDENTURE - DEFINITIONS OF CERTAIN TERMS”. All references herein to the Enabling Acts, the Fixed Rate Bonds, the Multi-Modal Bonds, the Indenture, the Standby Bond Purchase Agreements, the Bond Insurance, the Remarketing Agreement and the Continuing Disclosure Agreement are qualified in their entirety by reference to the complete texts thereof. Copies of drafts of such documents may be obtained during the initial offering period from the principal offices of the Underwriters and thereafter, executed copies may be obtained from the Trustee. All statements in this Official Statement involving matters of opinion, estimates, forecasts, projections or the like, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized.

THIS OFFICIAL STATEMENT PROVIDES CERTAIN INFORMATION CONCERNING EACH SERIES OF MULTI-MODAL BONDS APPLICABLE TO SUCH SERIES AS OF THE DATE OF THE OFFICIAL STATEMENT, WHICH DATE IS PRIOR TO A DATE ON WHICH A SUBSTITUTE STANDBY BOND PURCHASE AGREEMENTS MAY BE DELIVERED RELATING TO SUCH SERIES OF MULTI-MODAL BONDS, A DATE ON WHICH THE STANDBY BOND PURCHASE AGREEMENTS RELATING TO SUCH SERIES OF MULTI-MODAL BONDS EXPIRES, OR A CONVERSION DATE IN WHICH THE INTEREST RATE MODE FOR SUCH SERIES OF MULTI-MODAL BONDS IS CHANGED TO AN INTEREST RATE PERIOD OTHER THAN THAT APPLICABLE TO SUCH SERIES OF MULTI-MODAL BONDS ON THE DATE OF INITIAL ISSUANCE AND DELIVERY OF THE MULTI-MODAL BONDS OR OTHER THAN ONE COVERED BY THE INITIAL STANDBY BOND PURCHASE AGREEMENTS. DETAILS OF THE OPERATION OF EACH OF THE INTEREST RATE PERIODS THAT MAY BE APPLICABLE TO THE MULTI-MODAL BONDS AT A LATER DATE IS NOT INCLUDED HEREIN. OWNERS AND PROSPECTIVE PURCHASERS OF EACH SERIES OF MULTI-MODAL BONDS SHOULD NOT RELY ON THIS OFFICIAL STATEMENT FOR INFORMATION CONCERNING SUCH SERIES OF MULTI-MODAL BONDS ON AND AFTER ANY SUCH DATE, BUT SHOULD LOOK TO THE REVISIONS, AMENDMENTS, SUPPLEMENTS OR SUBSTITUTIONS HEREOF FOR INFORMATION CONCERNING SUCH SERIES OF MULTI-MODAL BONDS ON OR AFTER ANY SUCH DATE.

**Pennsylvania Turnpike Commission**

The Commission is an instrumentality of the Commonwealth created by the Enabling Acts (as defined below), with power to construct, operate and maintain the System (as defined below). Its composition, powers, duties, functions, duration and all other attributes are derived from the Enabling Acts as amended and supplemented

by subsequent legislation. The Enabling Acts may be modified, suspended, extended or terminated at any time by further legislation. See "THE PENNSYLVANIA TURNPIKE."

### **Indenture and Enabling Acts**

The 2006 Bonds are being issued pursuant to Supplemental Trust Indenture No. 8 dated as of June 1, 2006 (the "Supplemental Indenture No. 8") between the Commission and U.S. Bank National Association (successor to Wachovia Bank, National Association), as Trustee (the "Trustee") under an Amended and Restated Trust Indenture dated as of March 1, 2001, between the Commission and the Trustee (as amended and supplemented, the "Indenture"), pursuant to an Act of the General Assembly of Pennsylvania approved May 21, 1937, P.L. 774, Act 211, as amended and supplemented by several Acts of the General Assembly approved on various dates, including the Act of May 24, 1945, P.L. 972; the Act of February 26, 1947, P.L. 17; the Act of May 23, 1951, P.L. 335; and the Act of August 14, 1951, P.L. 1232; the Act of September 30, 1985, P.L. 240, No. 61 ("Act 61") (collectively, the "Enabling Acts") and the Resolution adopted by the Commission on March 7, 2006, as amended by the Resolution adopted April 18, 2006 and the Resolution adopted May 10, 2006 (together, the "Bond Resolutions").

### **2006 Bonds**

The 2006 Bonds will be issued in three separate series. The 2006A Bonds will bear interest at fixed interest rates and will mature, subject to prior redemption, on the dates and in the amounts set forth on the inside front cover of this Official Statement. See "DESCRIPTION OF THE 2006 BONDS – 2006A Fixed Rate Bonds". Interest on the 2006A Bonds will initially accrue from the date of original issuance and delivery of the 2006A Bonds, and will be payable semi-annually on June 1 and December 1 of each year commencing on December 1, 2006.

The Multi-Modal Bonds mature, subject to prior redemption, on the dates and in the amounts set forth on the inside front cover of this Official Statement. The Multi-Modal Bonds bear interest at a variable rate determined from time to time as described herein. See the table captioned "SUMMARY OF PROVISIONS OF THE MULTI-MODAL BONDS" herein for a summary of interest rate provisions applicable to the Multi-Modal Bonds. The 2006B Bonds and the 2006C Bonds will initially be issued as Weekly Rate Bonds until converted to another Interest Rate Period as described herein. See also "DESCRIPTION OF THE 2006 BONDS – Multi-Modal Bonds."

### **Conversion of Multi-Modal Bonds to Different Interest Rate Period**

At the times specified herein, the Interest Rate Period on a series of Multi-Modal Bonds (other than from a Fixed Rate Period) may be converted to another type of Interest Rate Period, including an Auction Rate Period, a Daily Rate Period, a Weekly Rate Period, a Monthly Rate Period, a Short-Term Rate Period, a Long-Term Rate Period or a Fixed Rate Period. See "DESCRIPTION OF THE 2006 BONDS-Interest on the Multi-Modal Bonds."

### **Redemption and Tender**

The 2006 Bonds are subject to optional and mandatory redemption prior to maturity under certain circumstances as more fully set forth herein. See "DESCRIPTION OF THE 2006 BONDS-Redemption of the 2006A Bonds - Redemption of Multi-Modal Bonds." The Multi-Modal Bonds (other than a series bearing interest at a Fixed Rate) are subject to optional and mandatory tender for purchase as set forth herein (Auction Rate Bonds are only subject to mandatory tender and only on a Conversion Date). See "DESCRIPTION OF THE 2006 BONDS-Tenders and Purchases of Multi-Modal Bonds."

### **Security**

The 2006 Bonds are limited obligations of the Commission. They will be equally and ratably secured, along with other outstanding Turnpike Revenue Bonds issued pursuant to the Indenture and certain other Parity Obligations, by a pledge by the Commission of the Trust Estate consisting primarily of Tolls. **THE INDENTURE PLEDGES TO THE TRUSTEE FOR THE BENEFIT OF THE OWNERS OF THE 2006 BONDS ALL TOLLS RECEIVED BY OR ON BEHALF OF THE COMMISSION FROM THE SYSTEM (DEFINED HEREINAFTER).** SEE "SECURITY FOR THE 2006 BONDS" for a more detailed description of the Trust Estate under the Indenture. The Commission has agreed in the Indenture that it will at all times establish and maintain schedules of Tolls for traffic over the System so that the Net Revenues of the System in each Fiscal Year will at all times be at least sufficient to provide funds in an amount not less than (1) the greater of (i) 130% of the Annual Debt Service for such Fiscal Year on account of all Applicable Long-Term Indebtedness then outstanding under the provisions of the Indenture; or (ii) 100% of the Maximum Annual Debt Service on all Applicable Long-Term Indebtedness, plus (a) the amount of required transfers from the Revenue Fund to the credit of the Reserve Maintenance Fund pursuant to the Annual Capital Budget, and (b) an amount sufficient to restore any deficiency in



the Debt Service Reserve Fund, if applicable, within an 18 month period; plus (2) the amount of any Short-Term Indebtedness outstanding pursuant to the Indenture for more than 365 consecutive days. In addition, Net Revenues in excess of the sum of the amounts set forth in clauses (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 (such covenant is referred to as the "Rate Covenant"). **THE 2006 BONDS SHALL NOT BE DEEMED TO BE A DEBT OF THE COMMONWEALTH OR A PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH. THE COMMONWEALTH IS NOT OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION WHATSOEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THE PAYMENT OF ANY OF THE 2006 BONDS.** See "SECURITY FOR THE 2006 BONDS."

In addition, a Debt Service Reserve Fund has been established under the Indenture to provide additional security for Debt Service Reserve Fund Bonds. The 2006A Bonds are Debt Service Reserve Fund Bonds. **The Multi-Modal Bonds are not Debt Service Reserve Fund Bonds and, accordingly, are not secured by moneys in the Debt Service Reserve Fund.** The Indenture requires that the balance in the Debt Service Reserve Fund be maintained at the Debt Service Reserve Requirement, which is an amount equal to the Maximum Annual Debt Service on account of all the Debt Service Reserve Fund Bonds. Debt Service Reserve Fund Bonds include Long-Term Indebtedness specified by the Commission in the Original Indenture or any Supplemental Indenture as being secured by the Debt Service Reserve Fund. See "SECURITY FOR THE 2006 BONDS – Debt Service Reserve Fund."

### **Bond Insurance**

Payment of the principal of and interest on the 2006 Bonds when due will be insured by a Financial Guaranty Insurance Policy (the "Bond Insurance Policy") to be issued by Ambac Assurance Corporation (the "Bond Insurer" or "Ambac Assurance") simultaneously with the delivery of the 2006 Bonds. See "BOND INSURANCE."

### **Standby Bond Purchase Agreements**

The purchase price of any Multi-Modal Bond in a Daily Rate Period, a Weekly Rate Period or a Monthly Rate Period which is tendered or deemed tendered for purchase will be payable, to the extent that remarketing proceeds are not sufficient therefor, from funds made available by JPMorgan Chase Bank, National Association (the "Liquidity Provider" or the "Bank") pursuant to two substantially identical Standby Bond Purchase Agreements (one for the 2006B Bonds and one for the 2006C Bonds) delivered at the time of initial issuance and delivery of the Multi-Modal Bonds (the "Liquidity Facilities" or the "Standby Bond Purchase Agreements"). The Bank, under the terms of the Standby Bond Purchase Agreements, will purchase those 2006B Bonds or 2006C Bonds, as the case may be, which are optionally tendered for purchase or are subject to mandatory purchase but not remarketed by the applicable Remarketing Agent. The Standby Bond Purchase Agreements are scheduled to expire (absent certain events of default described herein) on June 20, 2007. The enforceability of the Standby Bond Purchase Agreements may be limited by the bankruptcy, insolvency or reorganization of the Bank. No assurances can be given that in such event the obligations of the Bank under such Standby Bond Purchase Agreements would survive. See "STANDBY BOND PURCHASE AGREEMENTS" below. See also "APPENDIX F – THE BANK."

### **Pennsylvania Turnpike System**

The present Pennsylvania Turnpike System is composed of a 359 mile Turnpike Mainline traversing the southern portion of Pennsylvania from east to west and a 110 mile north-south section identified as the Northeast Extension. A north-south connection, known as the Beaver Valley Expressway, is approximately 16 miles in length and intersects the Turnpike Mainline in the southwestern portion of the Commonwealth. The Amos K. Hutchinson Bypass is approximately 13 miles in length and adjoins the Turnpike Mainline near the New Stanton Interchange. In addition, a 23-mile section of the Mon/Fayette Project and an eight mile section from the Pennsylvania/West Virginia border to Fairchance, which is located just south of Uniontown, are open as part of the Pennsylvania Turnpike System. When completed, the Mon/Fayette Expressway will extend 65 miles from Interstate Route 68 in West Virginia to Interstate Route 376 near Pittsburgh. (Such roads, together with any other roads for which the Commission has operational responsibility and is collecting Tolls, unless the Commission identifies a particular road other than the Mainline Section and the Northeast Extension as not being part of the System, constitute the "System".)

The Turnpike Mainline connects with the Ohio Turnpike at its western terminus and with the New Jersey Turnpike at its eastern terminus. The Turnpike Mainline commences on the eastern boundary of Pennsylvania at the

Delaware River Bridge which connects the Pennsylvania Turnpike System to the New Jersey Turnpike. The Turnpike Mainline traverses the state in a westerly direction generally paralleling the southern border of the state immediately north of Philadelphia and south of Harrisburg to the vicinity of Somerset. West of Somerset, the highway follows a northwesterly direction to the northeast of Pittsburgh and to the Ohio state line, south of Youngstown, Ohio.

The Pennsylvania Turnpike System has a total of 57 interchanges which connect it with major arteries and population centers in its 531 mile traffic corridor. Thirty of the interchanges are located on the Turnpike Mainline, including Turnpike Mainline barriers at the New Jersey and Ohio state lines, and ten interchanges are situated on the Northeast Extension. The additional seventeen interchanges are located on the three extensions previously noted. There are twenty-one service plazas along the Pennsylvania Turnpike System providing gasoline and diesel fuel, other automotive supplies and services and restaurant services. See "THE PENNSYLVANIA TURNPIKE" below.

### **Projects and Plan of Finance**

Under the terms of Act 61, the Commission is authorized and empowered, among other things, to construct, operate and maintain certain turnpike extensions and turnpike improvements as listed in and in accordance with priorities established by Act 61. Within such priority system established by Act 61, the Commission is authorized to construct projects "according to such schedule as shall be deemed feasible and approved by the Commission. See the caption "PENNSYLVANIA TURNPIKE SYSTEM - Turnpike Improvement Program." The 2006 Bonds are being issued to provide funds to (a) pay the costs of funding various capital expenditures through May 31, 2009 included in the Commission's Ten Year Capital Plan (Fiscal Years 2006/2007 through 2015/2016) including, but not limited to the reconstruction of a road bed and roadway, the widening, replacing and redecking of certain bridges and the rehabilitation of certain interchanges; (b) fund necessary reserves to the extent required; (c) pay the premium for the Bond Insurance Policy; and (d) pay the costs of issuance of the 2006 Bonds. See "PLAN OF FINANCE" and "CAPITAL IMPROVEMENT PROGRAM – Ten Year Capital Plan."

### **Revenue Sources of The Commission**

**Tolls.** 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 (the "Tolls", as defined in the Indenture) constitute one of the Commission's three principal streams of revenues. The Tolls are pledged to secure the 2006 Bonds and the Commission's outstanding turnpike revenue bonds (collectively, the "Turnpike Revenue Bonds" or the "Bonds") which will be subject to or may be issued under the terms of the Indenture. There are currently \$1,340,125,000 aggregate principal amount of Turnpike Revenue Bonds Outstanding under the Indenture. The 2006 Bonds will be secured, together with all other outstanding Bonds and other Parity Obligations (as herein defined), by a pledge of the Tolls. The Commission may in the future, under the terms of the Indenture, identify in writing certain roads, other than the Mainline Section and the Northeast Extension, as not being part of the System for the purposes of the Indenture. The Tolls are *not* pledged to secure the Oil Franchise Tax Revenue Bonds (as defined below) and are *not* pledged to secure the Registration Fee Revenue Bonds (as defined below).

**Oil Franchise Tax Revenues.** The Commission's second principal stream of revenues consists of that portion of the Commonwealth's Oil Franchise Tax revenues (the "Oil Franchise Tax Revenues") allocated by statute to the Commission or the holders of the Commission's Oil Franchise Tax Revenue Bonds (the "Oil Franchise Tax Revenue Bonds"), a total of \$ 611,650,000 of which are issued and outstanding. The Oil Franchise Tax Revenue Bonds, the proceeds of which were spent on portions of the Mon/Fayette Expressway and the Southern Beltway, are secured by Oil Franchise Tax Revenues. The Oil Franchise Tax Revenues are not pledged to secure the Bonds or the Registration Fee Revenue Bonds.

**Registration Fee Revenues.** The Commission's third principal stream of revenues consists of that portion of the Commonwealth's vehicle registration fee revenues (the "Registration Fee Revenues") allocated by statute to the Commission or the holders of any of the Commission's Registration Fee Revenue Bonds (the "Registration Fee Revenue Bonds"), a total of \$465,560,000 of which are issued and outstanding. The Registration Fee Revenue Bonds, the proceeds of which were spent on portions of the Mon/Fayette Expressway and the Southern Beltway, are secured by Registration Fee Revenues. Registration Fee Revenue Bonds are to be paid solely from the Registration Fee Revenues. The Registration Fee Revenues are *not* pledged to secure the Bonds or the Oil Franchise Tax Revenue Bonds.

Neither the Oil Franchise Tax Revenue Bonds nor the Registration Fee Revenue Bonds are secured by or have any interest in the Trust Estate.

**Future Sources.** In addition to Additional Bonds, the Commission may, from time to time, issue other notes and bonds payable from such sources as may be available, including but not limited to federal grants so long as the Tolls, the Oil Franchise Tax Revenues securing the Oil Franchise Tax Revenue Bonds or the Registration Fee Revenues securing the Registration Fee Revenue Bonds are *not* pledged to such other notes and bonds or, if pledged, are pledged on a subordinate basis.

### **Interest Rate Swap Agreements**

The Commission will enter into a fixed to floating interest rate swap agreement (the “Swap Agreement”) with respect to the 2006A Bonds, which will constitute a Parity Swap Agreement under the Indenture with the amounts payable under the Swap Agreement to be secured on a parity with the Bonds. The Swap Agreement will be in a notional amount equal to the principal amount of the 2006A Bonds and will be for the same term as the term of the 2006A Bonds. The counterparty for the Swap Agreement is Citibank, N. A. New York. The Commission has several other interest rate exchange agreements with respect to other series of the Bonds as well as with respect to certain series of its Registration Fee Revenue Bonds and Oil Franchise Tax Revenue Bonds. See “INTEREST RATE SWAP AGREEMENTS” and “APPENDIX A – AUDITED FINANCIAL STATEMENTS: 2005 AND 2004.”

### **Book-Entry Only**

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2006 Bonds. All 2006 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). Fully registered Bond certificates will be issued and deposited with the Trustee through the DTC Fast System. See “BOOK-ENTRY ONLY SYSTEM.”

### **Remarketing Agent**

PNC Capital Markets, LLC, will serve as Remarketing Agent for the 2006B Bonds. RBC Capital Markets will serve as Remarketing Agent for the 2006C Bonds. See “REMARKETING.”

## **DESCRIPTION OF THE 2006 BONDS**

### **Generally**

The 2006 Bonds will be issued in three separate series. The 2006A Bonds will be issued as fixed rate bonds and will bear interest at fixed rates to maturity. See “DESCRIPTION OF THE 2006 BONDS - 2006A Fixed Rate Bonds.” The 2006B Bonds and the 2006C Bonds will be issued as multi-modal bonds and shall bear interest at any one of an Auction Rate, Daily Rate, Weekly Rate, Monthly Rate, Short-Term Rate, Long-Term Rate or Fixed Rate, all as described herein, from the date of delivery of the 2006 Bonds until converted to another interest rate in accordance with the provisions of the Indenture. See “DESCRIPTION OF THE 2006 BONDS – Multi-Modal Bonds.”

**Payment of Principal of and Interest on the 2006 Bonds.** The principal of and redemption premium, if any, and interest on the 2006 Bonds shall be payable in any coin or currency of the United States of America which on the respective dates of payment thereof is legal tender for the payment of public and private debts. The principal of and the redemption premium, if any, on all 2006 Bonds shall be payable by check or draft at maturity or upon earlier redemption to the Persons in whose names such 2006 Bonds are registered on the Bond Register at the maturity or redemption date thereof, upon the presentation and surrender of such 2006 Bonds at the Principal Office of the Trustee or of any Paying Agent named in the 2006 Bonds.

The interest payable on each 2006 Bond on any Interest Payment Date shall be paid by the Trustee to the Person in whose name such Bond is registered on the Bond Register at the close of business on the Record Date for such interest, (i) by check or draft mailed on the applicable Interest Payment Date to such Registered Owner at his address as it appears on such Bond Register or at such other address as is furnished to the Trustee in writing by such Owner or (ii) by electronic transfer in immediately available funds, if the 2006 Bonds are held by a Securities Depository, or at the written request addressed to the Trustee by any Owner of 2006 Bonds in the aggregate principal amount of at least \$1,000,000, such request to be signed by such Owner, containing the name of the bank (which shall be in the continental United States), its address, its ABA routing number, the name and account number to which credit shall be made and an acknowledgment that an electronic transfer fee is payable, and to be filed with the Trustee no later than ten Business Days before the applicable Record Date preceding such Interest Payment Date. Interest on Short-Term Rate Bonds shall be paid only upon presentation and surrender of those Bonds. Interest on any Liquidity Provider Bond that ceases to be a Liquidity Provider Bond during an interest period shall be paid to the Person who is the Owner at the close of business on the Regular Record Date at the rate borne by Bonds of the same series other than Liquidity Provider Bonds.

The Record Date for determining the Owner entitled to payment of interest with respect to the 2006 Bonds on any given Interest Payment Date is (i) with respect to each Interest Payment Date for Daily Rate Bonds, Weekly Rate Bonds, Monthly Rate Bonds or Short-Term Rate Bonds, the Business Day immediately preceding that Interest Payment Date, (ii) with respect to each Interest Payment Date for Fixed Rate Bonds or Long-Term Rate Bonds, the 15<sup>th</sup> day of the month immediately preceding such Interest Payment Date and (iii) with respect to each Interest Payment Date for Auction Rate Bonds, the Record Date determined in accordance with the Auction Procedures.

Defaulted Interest with respect to any 2006 Bond shall cease to be payable to the Owner of such 2006 Bond on the relevant Record Date and shall be payable to the Owner in whose name such Bond is registered at the close of business on the Special Record Date for the payment of such Defaulted Interest, which Special Record Date shall be fixed in the following manner. The Commission shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each 2006 Bond and the date of the proposed payment (which date shall be such as will enable the Trustee to comply with the next sentence hereof), and shall deposit with the Trustee at the time of such notice an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment; money deposited with the Trustee shall be held in trust for the benefit of the Owners of the 2006 Bonds entitled to such Defaulted Interest. Following receipt of such funds the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 nor less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Commission of such Special Record Date and, in the name and at the expense of the Commission, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Owner of a 2006 Bond entitled to such notice at the address of such owner as it appears on the Bond Register not less than 10 days prior to such Special Record Date.

So long as the 2006 Bonds are in book-entry only form, the principal and redemption price of, and interest on, such 2006 Bonds is payable by check or draft mailed or wire transferred to Cede & Co., as nominee for DTC and registered owner of the 2006 Bonds, for redistribution by DTC to its Participants and in turn to Beneficial Owners as described under "BOOK-ENTRY ONLY SYSTEM."

**Authorized Denominations.** The 2006 Bonds will be issued as fully registered bonds in the following authorized denominations: (i) with respect to Fixed Rate Bonds and Multi-Modal Bonds bearing interest at a Fixed Rate, \$5,000 and any integral multiple thereof, (ii) with respect to Auction Rate Bonds, in such denominations as subsequently specified by a Certificate of a Commission Representative delivered to the Trustee, and (iii) with respect to Daily Rate Bonds, Weekly Rate Bonds, Monthly Rate Bonds, Short-Term Rate Bonds and Long-Term Rate Bonds, \$100,000 and any integral multiple of \$5,000 in excess of \$100,000.

**Registration, Transfer and Exchange.** The Trustee has been appointed Bond Registrar and as such shall keep the Bond Register at its Principal Office. The Person in whose name any 2006 Bond shall be registered on the Bond Register shall be deemed and regarded as the absolute owner of such 2006 Bond for all purposes, and payment of or on account of the principal or Purchase Price of and redemption premium, if any, and interest on any such 2006 Bond shall be made only to or upon the order of the Registered Owner thereof or his legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such 2006 Bond, including the interest thereon, to the extent of the sum or sums so paid.

Any 2006 Bond may be transferred only upon the Bond Register upon surrender thereof to the Trustee duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner or his attorney or legal representative in such form as shall be satisfactory to the Trustee. Upon any such transfer, the Commission shall execute and the Trustee shall authenticate and deliver in exchange for such 2006 Bond a new 2006 Bond or 2006 Bonds, registered in the name of the transferee, of any Authorized Denomination and of the same maturity and series and bearing interest at the same rate.

The Trustee may charge an amount sufficient to reimburse it for any tax, fee or other governmental charge required to be paid in connection with any such transfer, registration, conversion or exchange plus such amount as the Commission deems appropriate for such transfer, registration, conversion or exchange. The Trustee shall not be required to (i) transfer or exchange any 2006 Bond during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of such 2006 Bond and ending at the close of business on the day of such mailing, or (ii) transfer or exchange any 2006 Bond so selected for redemption in whole or in part, or during a period beginning at the opening of business on any Record Date for such 2006 Bond and ending at the close

of business on the relevant Interest Payment Date therefor. See also “BOOK-ENTRY ONLY SYSTEM” herein for further information regarding registration, transfer and exchange of the 2006 Bonds.

The Indenture, and all provisions thereof, are incorporated by reference in the text of the 2006 Bonds, and the 2006 Bonds provide that each registered owner, Beneficial Owner, Participant or Indirect Participant (as such terms are defined hereinafter) by acceptance of a 2006 Bond (including receipt of a book-entry credit evidencing an interest therein) assents to all of such provisions as an explicit and material portion of the consideration running to the Commission to induce it to issue such 2006 Bond.

### **2006A Fixed Rate Bonds**

The 2006A Bonds shall bear interest at the rates per annum and will mature on the dates set forth on the inside front cover page of this Official Statement. The 2006A Bonds shall bear interest from and including the Dated Date thereof until payment of the principal or redemption price thereof shall have been made or provided for in accordance with the provisions thereof, whether at maturity, upon redemption or otherwise. Interest on the 2006A Bonds shall be paid on June 1 and December 1 of each year commencing December 1, 2006 (each, an “Interest Payment Date”). Each 2006A Bond shall bear interest on overdue principal at the rate borne by such 2006A Bond. Interest on the 2006A Bonds shall be computed on the basis of a 360-day year of twelve 30-day months.

The 2006A Bonds shall have a “Series Issue Date” which shall be the date of original issuance and first authentication and delivery against payment therefor, and which shall be set forth on the face side of all 2006A Bonds authenticated by the Authenticating Agent. 2006A Bonds issued prior to the first Interest Payment Date following the Series Issue Date shall have a “Dated Date” of the date of original issuance. 2006A Bonds issued on or subsequent to the first Interest Payment Date following the Series Issue Date shall have a “Dated Date” which is the same as the Interest Payment Date next preceding the date of authentication thereof, unless such date of authentication shall be an Interest Payment Date to which interest on the 2006A Bonds has been paid in full or duly provided for, in which case they shall have a “Dated Date” which is the same as such date of authentication; provided that if, as shown by the records of the Paying Agent, interest on the 2006A Bonds shall be in default, 2006A Bonds issued in exchange for 2006A Bonds surrendered for transfer or exchange shall have a “Dated Date” which is the same as the date to which interest has been paid in full on the 2006A Bonds or, if no interest has been paid on the 2006A Bonds, the Series Issue Date of the 2006A Bonds.

### **REDEMPTION OF THE 2006A BONDS**

The 2006A Bonds will be subject to redemption prior to maturity as follows:

**Optional Redemption.** The 2006A Bonds maturing on or after December 1, 2022 are subject to optional redemption prior to maturity by the Commission at any time on and after June 1, 2016, as a whole or in part by lot, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date.

**Redemption Procedures.** If less than all of the 2006A Bonds which are stated to mature on the same date shall be called for redemption, the particular 2006A Bonds or portions of 2006A Bonds to be redeemed shall be selected by lot by the Trustee or in such manner as the Trustee deems fair and appropriate; provided, however, that the Trustee shall treat each 2006A Bond as representing that number of 2006A Bonds respectively which is obtained by dividing the principal amount thereof by \$5,000.

In the event of any such redemption, either in whole or in part, official notice of any such redemption shall be given by the Trustee on behalf of the Commission by mailing a copy of an official redemption notice by first class mail at least 30 days and not more than 60 days prior to the redemption date to each Registered Owner of the 2006 Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such Registered Owner to the Trustee. As long as DTC remains the sole registered owner of the 2006A Bonds, notice of redemption shall be sent to DTC as provided in the Indenture. Such mailing shall not be a condition precedent to such redemption and failure to mail any such notice shall not affect the validity of the proceedings for the redemption of 2006A Bonds. Notice of redemption having been given as aforesaid, the 2006A Bonds or portions thereof so called for redemption shall become due and payable at the applicable redemption price therein provided, and from and after the date so fixed for redemption, interest on the 2006A Bonds or portions thereof so called for redemption shall cease to accrue and become payable. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the 2006A Bonds called for redemption or of any other action premised on such notice. See “BOOK-ENTRY ONLY SYSTEM.”

In the case of an optional redemption, the notice may state (1) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Trustee no later than the redemption date or (2) that the Commission retains the right to rescind such notice at any time prior to the scheduled redemption date if the Commission delivers a certificate of a Commission Official to the Trustee instructing the Trustee to rescind the redemption notice, and such notice and optional redemption shall be of no effect if such moneys are not so deposited or if the notice is rescinded as described in the Indenture.

## **Multi-Modal Bonds**

### **GENERALLY**

THIS OFFICIAL STATEMENT PROVIDES CERTAIN INFORMATION CONCERNING EACH SERIES OF MULTI-MODAL BONDS APPLICABLE TO SUCH SERIES AS OF THE DATE OF THE OFFICIAL STATEMENT, WHICH DATE IS PRIOR TO A DATE ON WHICH A SUBSTITUTE STANDBY BOND PURCHASE AGREEMENTS MAY BE DELIVERED RELATING TO SUCH SERIES OF MULTI-MODAL BONDS, A DATE ON WHICH THE STANDBY BOND PURCHASE AGREEMENTS RELATING TO SUCH SERIES OF MULTI-MODAL BONDS EXPIRES, OR A CONVERSION DATE IN WHICH THE INTEREST RATE MODE FOR SUCH SERIES OF MULTI-MODAL BONDS IS CHANGED TO AN INTEREST RATE PERIOD OTHER THAN THAT APPLICABLE TO SUCH SERIES OF MULTI-MODAL BONDS ON THE DATE OF INITIAL ISSUANCE AND DELIVERY OF THE MULTI-MODAL BONDS OR OTHER THAN ONE COVERED BY THE INITIAL STANDBY BOND PURCHASE AGREEMENTS. DETAILS OF THE OPERATION OF EACH OF THE INTEREST RATE PERIODS THAT MAY BE APPLICABLE TO THE MULTI-MODAL BONDS AT A LATER DATE IS NOT INCLUDED HEREIN. OWNERS AND PROSPECTIVE PURCHASERS OF EACH SERIES OF MULTI-MODAL BONDS SHOULD NOT RELY ON THIS OFFICIAL STATEMENT FOR INFORMATION CONCERNING SUCH SERIES OF MULTI-MODAL BONDS ON AND AFTER ANY SUCH DATE, BUT SHOULD LOOK TO THE REVISIONS, AMENDMENTS, SUPPLEMENTS OR SUBSTITUTIONS HEREOF FOR INFORMATION CONCERNING SUCH SERIES OF MULTI-MODAL BONDS ON OR AFTER ANY SUCH DATE.

The Multi-Modal Bonds of each Series may bear interest at any of an Auction Period Rate, a Daily Rate, a Weekly Rate, a Monthly Rate, a Short-Term Rate, a Long-Term Rate or a Fixed Rate, determined as provided in the Indenture and herein under the heading “DESCRIPTION OF THE 2006 BONDS – Multi-Modal Bonds – Interest on the Multi-Modal Bonds.” Multi-Modal Bonds during a Daily Interest Period, a Weekly Interest Period and a Monthly Interest Period are subject to tender at the option of the Owner in certain situations as described herein and in the Indenture. Multi-Modal Bonds during an Auction Rate Period, a Daily Interest Period, a Weekly Interest Period, a Monthly Interest Period, a Short-Term Interest Period and a Long-Term Interest Period are subject to mandatory tender for purchase in certain situations as described herein and in the Indenture. See “DESCRIPTION OF THE 2006 BONDS – Multi-Modal Bonds – Tenders and Purchase of Multi-Modal Bonds.” The Multi-Modal Bonds may operate in one or more Interest Rate Periods, provided that all Multi-Modal Bonds of a Series shall operate in the same Interest Rate Period at any given time.

The 2006B Bonds and the 2006C Bonds will both initially shall bear interest at a Weekly Rate. Both the 2006B Bonds and the 2006C Bonds shall bear interest from their Dated Date at such Weekly Rate unless and until the Interest Rate Period for the Multi-Modal Bonds is converted to a different Interest Rate Period pursuant to the Indenture. If the Multi-Modal Bonds of either series are converted to Auction Rate Bonds, Daily Rate Bonds, Monthly Rate Bonds, Short-Term Rate Bonds, Long-Term Rate Bonds or Fixed Rate Bonds, the Multi-Modal Bonds of such series shall bear interest from and after that conversion in accordance with provisions of the Indenture applicable to such mode of Multi-Modal Bonds, as described herein.

### **INTEREST ON THE MULTI-MODAL BONDS**

The Multi-Modal Bonds shall bear interest at Auction Period Rates, Daily Rates, Weekly Rates, Monthly Rates, Short-Term Rates, Long-Term Rates or Fixed Rates, determined as provided herein, from and including their date or from and including the most recent Interest Payment Date to which interest has been paid or duly provided for; provided that in no event will the interest rate on any Multi-Modal Bonds exceed the Maximum Rate. Interest on the Multi-Modal Bonds shall be payable in arrears on each Interest Payment Date, commencing on the first Interest Payment Date after the date of original issuance of the Multi-Modal Bonds.

The Multi-Modal Bonds may operate in one or more Interest Rate Periods, provided that all Multi-Modal Bonds of a Series shall operate in the same Interest Rate Period at any given time.

The Multi-Modal Bonds shall have a Series Issue Date which shall be the date of original issuance and first authentication and delivery against payment therefor. Multi-Modal Bonds issued prior to the first Interest Payment Date following the Series Issue Date shall have a “Dated Date” which shall be the same as the Series Issue Date. Multi-Modal Bonds issued on or subsequent to the first Interest Payment Date following the Series Issue Date shall have a “Dated Date” which is the same as the Interest Payment Date next preceding the date of authentication thereof, unless such date of authentication shall be an Interest Payment Date to which interest on the Multi-Modal Bonds has been paid in full or duly provided for, in which case they shall have a “Dated Date” which is the same as such date of authentication; provided that if, as shown by the records of the Paying Agent, interest on the Multi-Modal Bonds shall be in default, Multi-Modal Bonds issued in exchange for Multi-Modal Bonds surrendered for transfer or exchange shall have a “Dated Date” which is the same as the date to which interest has been paid in full on the Multi-Modal Bonds or, if no interest has been paid on the Multi-Modal Bonds, the Series Issue Date of the Multi-Modal Bonds.

The Multi-Modal Bonds shall bear interest from their Dated Date payable on each Interest Payment Date. Interest Payment Date means with respect to: (i) Daily Rate Bonds, Weekly Rate Bonds and Monthly Rate Bonds, the first Business Day of each calendar month, any day that is a Conversion Date from a Daily Rate Period, a Weekly Rate Period or a Monthly Rate Period, as appropriate, the redemption date and the maturity date for the Multi-Modal Bonds; (ii) Short-Term Rate Bonds, the first Business Day after the last day of each Short-Term Interest Period, the redemption date and the maturity date for the Series 2006 Multi-Modal Bonds; (iii) Long-Term Rate Bonds, each June 1 and December 1, any day that is a Conversion Date from a Long-Term Rate Period, the redemption date and the maturity date for the Series 2006 Multi-Modal Bonds; and (iv) Fixed Rate Bonds, each June 1 and December 1 through and including the redemption date or maturity date for the 2006 Bonds; and (v) Liquidity Provider Bonds, the first Business Day of each calendar month.

The amount of interest payable with respect to any Multi-Modal Bonds on any Interest Payment Date shall be computed (1) during an Auction Rate Period, in accordance with the Auction Procedures, (2) during a Daily Interest Period, Weekly Interest Period, Monthly Interest Period or Short-Term Interest Period, on the basis of a 365- or 366-day year for the number of days actually elapsed, based on the calendar year in which the Daily Interest Period, Weekly Interest Period, Monthly Interest Period or Short-Term Interest Period ends, and (3) during Fixed Rate Periods and Long-Term Rate Periods, on the basis of a 360-day year of twelve 30-day months.

All determinations of interest rates, amounts of interest payable on the Multi-Modal Bonds and rate periods pursuant to the Indenture shall be conclusive and binding upon the Commission, the Trustee, the Tender Agent, the Paying Agent, the Remarketing Agent, the Auction Agent, if any, the Broker-Dealer(s), if any, the Bond Insurer, the Liquidity Provider and the Owners of the Multi-Modal Bonds to which such rates are applicable. The Commission, the Trustee, the Tender Agent, the Liquidity Provider, the Bond Insurer, the Remarketing Agent, the Auction Agent, if any, and the Broker-Dealer(s), if any, shall not be liable to any Bondowner for failure to give any notice specified in the Indenture or for the failure of any Bondowner to receive any such notice.

The interest rate for Daily Rate Bonds, Weekly Rate Bonds, Monthly Rate Bonds, Short-Term Rate Bonds, Long-Term Rate Bonds and Fixed Rate Bonds for each interest period shall be determined by the Remarketing Agent as the lowest rate of interest which, in the judgment of the Remarketing Agent, would cause such 2006 Bonds to have a market value as of the date of determination equal to the principal amount thereof, taking into account Prevailing Market Conditions, provided that in no event will the interest rate on any such Bonds exceed the Maximum Rate.

**Daily Rates.** Whenever Multi-Modal Bonds are to bear interest accruing at a Daily Rate, Daily Interest Periods shall commence on each Business Day and shall extend to, but not include, the next succeeding Business Day. The interest rate for each Daily Interest Period shall be effective from and including the commencement date thereof and shall remain in effect to, but not including, the next succeeding Business Day. Each such interest rate shall be determined by the Remarketing Agent between 8:30 a.m. and 9:30 a.m., New York City time, on the commencement date of the Daily Interest Period to which it relates.

**Weekly Rates.** Whenever Multi-Modal Bonds are to bear interest accruing at a Weekly Rate, Weekly Interest Periods shall commence on Thursday of each week and end on Wednesday of the following week; provided, however, that (A) in the case of a conversion to a Weekly Rate Period, the initial Weekly Interest Period for such Multi-Modal Bonds shall commence on the Conversion Date and end on the next succeeding Wednesday and (B) in the case of a conversion from a Weekly Rate to a Daily Rate, a Monthly Rate, an Auction Rate, a Short-Term Rate or a Long-Term Rate, the last Weekly Interest Period prior to conversion shall end on the last day immediately preceding the Conversion Date. The interest rate for each Weekly Interest Period shall be effective from and including the

commencement date of such period and shall remain in effect through and including the last day thereof. Each such interest rate shall be determined by the Remarketing Agent by 4:00 p.m., New York City time, on the Business Day immediately preceding the commencement date of the Weekly Interest Period to which it relates.

**Monthly Rates.** Whenever Multi-Modal Bonds are to bear interest accruing at a Monthly Rate, Monthly Interest Periods shall commence on the first Business Day of the applicable month and end on the last day preceding the earliest of the commencement date of the next Monthly Interest Period, the date of maturity and the date of mandatory purchase; provided, however, that in the case of a conversion to a Monthly Rate Period, the initial Monthly Interest Period for such Multi-Modal Bonds shall commence on the Conversion Date.

**Short-Term Rates.** Short-Term Rates on, and Short-Term Interest Periods for, Short-Term Rate Bonds shall be determined as follows:

(i) Each Short-Term Interest Period shall be determined by the Remarketing Agent on the first Business Day of that Short-Term Interest Period as that Short-Term Interest Period which will, in the judgment of the Remarketing Agent, produce the greatest likelihood of the lowest net interest cost during the term of the 2006 Bonds; provided that each Short-Term Interest Period (A) shall be from 1 to 270 days in length but shall not exceed the number of days of interest coverage provided by the Liquidity Facility minus five days, shall not extend beyond the date that is five days before the Expiration Date of the Liquidity Facility and shall not exceed the remaining number of days prior to the Conversion Date if the Remarketing Agent has given or received notice of any conversion to a different Interest Rate Period, (B) shall commence on a Business Day (except in the case of a conversion to a Short-Term Rate Period, the initial Short-Term Interest Period shall commence on the Conversion Date), shall end on a day preceding a Business Day, and (C) in any event shall end no later than the day preceding the maturity date for the applicable 2006 Bonds. The Remarketing Agent may, in the reasonable exercise of its judgment, determine a Short-Term Interest Period that results in a Short-Term Rate on the applicable 2006 Bonds that is higher than would be borne by Multi-Modal Bonds with a shorter Short-Term Interest Period in order to increase the likelihood of achieving the lowest net interest cost during the term of the Multi-Modal Bonds by assuring the effectiveness of such Short-Term Rate for a longer Short-Term Interest Period. The determination of a Short-Term Interest Period by the Remarketing Agent shall be based upon the relative market yields of Multi-Modal Bonds and other securities that bear interest at a variable rate or at fixed rates that, in the reasonable exercise of the judgment of the Remarketing Agent are otherwise comparable to the Multi-Modal Bonds, or any fact or circumstance relating to the Multi-Modal Bonds or affecting the market for the Multi-Modal Bonds or affecting such other comparable securities in a manner that, in the reasonable exercise of the judgment of the Remarketing Agent, will affect the market for the Multi-Modal Bonds. The Remarketing Agent in its discretion, may consider such information and resources as it deems appropriate in making the determinations described in this paragraph, including consultations with the Commission, but the Remarketing Agent's determination of the Short-Term Interest Period will be based solely upon the reasonable exercise of the Remarketing Agent's judgment.

(ii) The interest rate for each Short-Term Interest Period shall be effective from and including the commencement date of that interest period and shall remain in effect through and including the last day thereof.

(iii) All Short-Term Rate Bonds shall bear interest accruing at the same Short-Term Rate, and for the same Short-Term Interest Period.

(iv) Each such interest rate shall be determined by the Remarketing Agent by 4:00 p.m., New York City time, on the Business Day immediately preceding the commencement date of the Short-Term Interest Period to which it relates.

**Long-Term Rates.** A Long-Term Rate for Long-Term Rate Bonds shall be determined for each Long-Term Interest Period as follows:

(i) Long-Term Interest Periods shall commence on a Conversion Date and subsequently on a June 1 or December 1 which is at least 12 calendar months after the Conversion Date to a Long-Term Rate Period, and end on the day preceding either the commencement date of the following Long-Term Interest Period or the Conversion Date on which a different Interest Rate Period shall become effective or the maturity date for the Multi-Modal Bonds.

(ii) The Long-Term Rate for each Long-Term Interest Period shall be effective from and including the commencement date thereof and remain in effect to and including the last day thereof. Each such Long-Term Rate shall be determined on the Business Day immediately preceding the commencement date of such period.



(iii) Long-Term Interest Periods (other than a Long-Term Interest Period extending to the maturity date for the Multi-Modal Bonds) shall not extend to a date beyond the fifth day next preceding the Expiration Date of the Liquidity Facility.

(iv) The term of each Long-Term Interest Period shall be specified in writing by the Commission to the Remarketing Agent, the Trustee, the Tender Agent, the Bank and the Bond Insurer at least 20 days before its commencement; provided that the term may not be more than one year if the term of the immediately preceding Long-Term Interest Period was one year, and the term shall not be one year if the term of the immediately preceding Long-Term Interest Period was more than one year, unless in each case the Commission has provided a Favorable Opinion of Bond Counsel to the Trustee, the Commission and the Bond Insurer.

**Fixed Rate Multi-Modal Bonds.** Multi-Modal Bonds bearing interest at a Fixed Rate may not be converted to any other type of Interest Rate Period and will not be covered by any Liquidity Facility.

The Fixed Rate Period shall commence on a Conversion Date and shall extend to the maturity date for the Multi-Modal Bonds. The Fixed Rate shall be set forth in the firm underwriting or purchase contract delivered in connection with the conversion of the Multi-Modal Bonds to a Fixed Rate Period.

**Bank Bond Rate.** When Multi-Modal Bonds are purchased by the Bank pursuant to the Standby Bond Purchase Agreements, Bank Bonds shall bear interest at the Bank Bond Rate rather than the Daily Rate, Weekly Rate or Monthly Rate otherwise applicable to the Multi-Modal Bonds during the term of the initial Standby Bond Purchase Agreements. Interest on Bank Bonds is payable to the Bank or (if applicable) to any other Bank Bondholder (as such term is defined in the Standby Bond Purchase Agreements), notwithstanding any provisions of the Indenture regarding Regular Record Date or Special Record Date. Interest accrual at the Bank Bond Rate shall begin on (and shall include) the date such Multi-Modal Bond is purchased by the Bank pursuant to the applicable Standby Bond Purchase Agreement and shall end on (but shall not include) the date such Multi-Modal Bond is remarketed pursuant to the Indenture or redeemed in accordance with the Standby Bond Purchase Agreements.

#### **CONVERSION BETWEEN RATE PERIODS**


The Commission may elect to convert all of the Multi-Modal Bonds of a series from one type of Interest Rate Period (other than from a Fixed Rate Period) to another type of Interest Rate Period as follows:







**Notices by Commission.** The Commission shall give written notice of any proposed conversion to the Trustee not fewer than seven Business Days (fourteen Business Days in the case of a proposed conversion to a Short-Term Rate Period) prior to the date the notice to affected Owners must be given notice of the proposed conversion by the Trustee (discussed immediately below).

**Notices by Trustee.** Upon receipt of the notice specified above from the Commission, the Trustee shall promptly give written notice of the proposed conversion to the affected Owners, the Tender Agent, the Remarketing Agent, the Bond Insurer, the Auction Agent, if any, the Broker-Dealer, if any, the Liquidity Provider and any rating service that has notified the Trustee in writing that it has established a rating for the Multi-Modal Bonds. The Trustee shall give notice (which may be combined, where applicable, with any other notice required) by first class mail of the proposed conversion to the affected Owners of Multi-Modal Bonds not less than 10 days before the proposed Conversion Date. Such notice shall state:

- (a) the proposed Conversion Date and the proposed Interest Rate Period to be effective on such date;
- (b) that the Multi-Modal Bonds will be subject to mandatory tender for purchase on the Conversion Date;
- (c) the conditions, if any, to the conversion, and the consequences of such conditions not being fulfilled;
- (d) if the Multi-Modal Bonds are in certificated form, information with respect to required delivery of Multi-Modal Bond certificates and payment of the Purchase Price; and
- (e) the new Interest Payment Dates and Record Dates.

**Conditions to Conversion.** No conversion of Interest Rate Periods will become effective unless:

 If the conversion is from a Short-Term Rate Period, the Trustee has received, prior to the date on which notice of conversion is required to be given to Owners, (i) written confirmation from the Remarketing Agent that it has not established and will not establish any Short-Term Interest Periods extending beyond the day before the Conversion Date and (ii) the Conversion Date shall be the Interest Payment Date for such Short-Term Rate Bonds; and

-  If the conversion is either (A) from an Auction Rate Period with an Auction Period of one year or less, a Short-Term Rate Period, Weekly Rate Period, a Monthly Rate Period or a Daily Rate Period to an Auction Rate Period with an Auction Period of more than one year, a Long-Term Rate Period or a Fixed Rate Period, or (B) from an Auction Rate Period with an Auction Period of more than one year, or a Long-Term Rate Period to an Auction Rate Period with an Auction Period of one year or less, a Short-Term Rate Period, a Weekly Rate Period, a Monthly Rate Period or a Daily Rate Period, the Trustee and the Commission has been provided, no later than one day before the Conversion Date, with a Favorable Opinion of Bond Counsel, which opinion shall be confirmed in writing on the Conversion Date; and
-  If the conversion is to a Daily Rate Period, a Weekly Rate Period, a Monthly Rate Period, a Short-Term Rate Period or a Long-Term Rate Period, (A) the Commission shall have appointed (1) the Underwriter or another underwriting firm to act as the Remarketing Agent for the series of the Multi-Modal Bonds and (2) a Qualified Financial Institution or, with the prior written consent of the Bond Insurer, the Commission to act as Liquidity Provider; (B) the Commission shall have furnished to the Trustee (1) an executed Remarketing Agreement whereby the Remarketing Agent agrees to perform the duties of the Remarketing Agent, (2) a Liquidity Facility in form and substance reasonably satisfactory to the Remarketing Agent, in an amount equal to the aggregate principal amount of all Outstanding Multi-Modal Bonds of the applicable series, plus an amount equal to at least 34 days interest (183 days interest if the conversion is to Long-Term Rate Bonds or, if the conversion is to Short-Term Rate Bonds, the maximum number of days of a Short-Term Interest Period, plus five days), on all Multi-Modal Bonds of the applicable series at the Maximum Rate for the Multi-Modal Bonds other than Liquidity Provider Bonds, under which the Liquidity Provider is required to purchase Multi-Modal Bonds tendered for purchase in accordance with Supplemental Indenture No. 8, together with an Opinion of Counsel, to the effect that the Liquidity Facility has been duly authorized, executed and delivered by the Liquidity Provider, is a valid and binding and enforceable obligation of the Liquidity Provider (subject as to enforcement to customary exceptions regarding bankruptcy, insolvency and similar laws and principles of equity), and that the Liquidity Facility will not require any Multi-Modal Bonds (or any securities evidenced thereby) to be registered under the Securities Act of 1933, as amended, or the Supplemental Indenture No. 8 to be qualified under the Trust Indenture Act of 1939, as amended; and
-  If the conversion is to an Auction Rate Period, (1) the Commission shall have appointed an Auction Agent and Broker-Dealer and (2) the Commission shall have furnished to the Trustee an Auction Agreement and a Broker-Dealer Agreement; and
-  If the conversion is to a Fixed Rate Period, the Commission shall notify in writing the Trustee of its irrevocable election to effect such a conversion, specifying in the notice the Conversion Date on which the Fixed Rate Period is to commence, and delivering with such notice a firm underwriting or purchase contract from a recognized firm of bond underwriters or recognized institutional investors, which can be the Remarketing Agent, to underwrite or purchase all of the Multi-Modal Bonds of the applicable series at a price of 100% of the principal amount thereof at an agreed upon interest rate which such underwriter or institutional investor certifies is the lowest rate that will permit the Multi-Modal Bonds of the applicable series to be sold at par on the first day of the Fixed Rate Period and containing a mandatory sinking fund redemption schedule prepared in accordance with the Indenture. Upon receipt by the Trustee of such notice from the Commission, the Trustee shall promptly cause the same information contained in such notice to be delivered to the Tender Agent, the Remarketing Agent, the Bond Insurer, the Liquidity Provider and any rating service that has notified the Trustee in writing that it has established a rating for the Multi-Modal Bonds; and
-  The conversion shall not occur unless the Conversion Date is a date on which the Multi-Modal Bonds being converted could be redeemed without payment of a redemption premium; and
-  If the conversion is to a Short-Term Rate Period, (A) the Commission must engage, at its expense, a commercial paper trustee and the paying agent (the “Issuing Agent”), reasonably acceptable to the Trustee, the Paying Agent and the Liquidity Provider, having access to the Securities Depository’s electronic money market issuing and payment system and otherwise eligible to serve as an issuing and paying agent under the Securities Depository’s policies and procedures for the issuance and payment of commercial paper; and (B) the Remarketing Agent must arrange for the execution and delivery to the Securities Depository of its required letter of representation for the eligibility of the Multi-Modal Bonds in the Short-Term Rate Period in the Securities Depository’s book entry system and the provision of any needed CUSIP numbers; and (C) the Commission shall take all other action needed to comply with the Securities Depository’s requirements applicable to the issuance and payment of the Bonds while in the Short-Term Rate Period; and (D) the Commission shall enter into any amendment of

Supplemental Indenture No. 8 that is needed to comply with the Securities Depository's or any rating agency's requirements concerning the issuance and payment of the Multi-Modal Bonds in the Short-Term Rate Period; and

- If the conversion is from a Long-Term Rate Period, the Conversion Date shall be the Interest Payment Date following the end of such Long-Term Rate Period; and
- The Conversion Date shall be an Interest Payment Date for the Rate Period from which the conversion is being made; and
- In addition to the foregoing, notice of the proposed conversion and the related mandatory tender for purchase of the applicable Series of Multi-Modal Bonds must be sent in accordance with the requirements of the Indenture. See: "DESCRIPTION OF THE 2006 BONDS – Multi-Modal Bonds – Tender and Purchase of Multi-Modal Bonds."

**Failure of Conditions to Conversion.** In the event any condition precedent to a conversion is not fulfilled, (i) the Conversion Date shall not occur, (ii) the mandatory tender shall not occur, (iii) any affected Auction Rate Bond shall continue to be an Auction Rate Bond and shall continue to be payable at the applicable Auction Period Rate for the balance of the Auction Period then applicable thereto (without regard to the attempted conversion) and shall bear interest for the next succeeding Auction Period at the Auction Period Rate for seven (7) day Auction Period determined in accordance with the Auction Procedures and (iv) any other affected Multi-Modal Bond shall continue in the then existing Interest Rate Period with the length of the interest period and the interest rate being determined in accordance with the Indenture; provided however, if payment has failed due to the default under the Bond Insurance Policy, the Auction Period Rate shall be the Maximum Rate. Notice of withdrawal of a conversion notice shall be given by the Commission to the Trustee, the Remarketing Agent, the Tender Agent, the Bond Insurer, the Liquidity Provider and the Auction Agent (in the case of conversion of Auction Rate Bonds) by telephone, promptly confirmed in writing, and shall thereafter be promptly given to the Bondowners by the Trustee by first-class mail. No failure or cancellation of conversion shall constitute an Event of Default.

#### **TENDERS AND PURCHASE OF MULTI-MODAL BONDS**

##### **Optional Tenders During Daily Rate Periods, Weekly Rate Periods and Monthly Rate Periods.**

Owners of Daily Rate Bonds, Weekly Rate Bonds or Monthly Rate Bonds may elect to have their Daily Rate Bonds, Weekly Rate Bonds or Monthly Rate Bonds (other than Commission Bonds or Liquidity Provider Bonds), or portions thereof in Authorized Denominations, purchased at the Purchase Price on the following Purchase Dates and upon the giving of the following telephonic, telecopy or written notices meeting the further requirements set forth below:

(i) Daily Rate Bonds (other than Commission Bonds or Liquidity Provider Bonds) may be tendered for purchase at the Purchase Price payable in immediately available funds on any Business Day upon telephonic, telecopy or written notice of tender to the Tender Agent and the Remarketing Agent not later than 9:30 a.m., New York City time, on the designated Purchase Date.

(ii) Weekly Rate Bonds or Monthly Rate Bond (other than Commission Bonds or Liquidity Provider Bonds) may be tendered for purchase at the Purchase Price payable in immediately available funds on any Business Day upon delivery of a written notice of tender to the Tender Agent and the Remarketing Agent not later than 5:00 p.m., New York City time, on a Business Day not fewer than seven days prior to the designated Purchase Date.

Each notice of tender:

- shall, in case of a written notice, be delivered to the Tender Agent and the Remarketing Agent at their Principal Offices and be in form satisfactory to the Tender Agent and the Remarketing Agent;
- shall state, whether delivered in writing or by telephone or telecopier, (A) the principal amount of the Daily Rate Bond, Weekly Rate Bond or Monthly Rate Bond to which the notice relates and the CUSIP number of that Bond, (B) that the Owner irrevocably demands purchase of that Multi-Modal Bond or a specified portion thereof in an Authorized Denomination, (C) the Purchase Date on which that Multi-Modal Bond or portion thereof is to be purchased and (D) payment instructions with respect to the Purchase Price; and
- shall automatically constitute, whether delivered in writing or by telephone or telecopier, (A) an irrevocable offer to sell the Multi-Modal Bond (or portion thereof) to which such notice relates on the Purchase Date to any purchaser selected by the Remarketing Agent (or to the applicable Liquidity

Provider in the case of purchases made with funds paid under the applicable Liquidity Facility), at a price equal to the Purchase Price, (B) an irrevocable authorization and instruction to the Tender Agent to effect transfer of such Multi-Modal Bond (or portion thereof) upon receipt by the Tender Agent of funds sufficient to pay the Purchase Price on the Purchase Date, (C) an irrevocable authorization and instruction to the Tender Agent to effect the exchange of the Multi-Modal Bond to be purchased in whole or in part for other Multi-Modal Bonds in an equal aggregate principal amount so as to facilitate the sale of that Multi-Modal Bond (or portion thereof to be purchased), (D) an acknowledgment that such Owner will have no further rights with respect to that Multi-Modal Bond (or portion thereof) upon deposit of an amount equal to the Purchase Price thereof with the Tender Agent on the Purchase Date, except for the right of such Owner to receive the Purchase Price upon surrender of that Multi-Modal Bond to the Tender Agent, and (E) an agreement of such Owner to deliver such Daily Rate Bonds, Weekly Rate Bonds or Monthly Rate Bonds, with all necessary endorsements for transfer and signature guarantees, to the Tender Agent at its Principal Office not later than 1:00 p.m., New York City time, on the Purchase Date.

The determination of the Tender Agent and the Remarketing Agent as to whether a notice of tender has been properly delivered pursuant to the foregoing shall be conclusive and binding upon the Owner. The Tender Agent or the Remarketing Agent may waive any irregularity or nonconformity in any notice of tender.

The right of Bondowners to tender Daily Rate Bonds, Weekly Rate Bonds or Monthly Rate Bonds for purchase shall terminate upon the earliest of (i) the fifth day next preceding the Expiration Date (or unless on or prior to the fifth day next preceding the Expiration Date, the Expiration Date is extended), (ii) a Conversion Date for conversion to an Interest Rate Period other than a Daily Rate Period, a Weekly Rate Period or a Monthly Rate Period and (iii) the Termination Date. The right of Bondowners to tender Daily Rate Bonds, Weekly Rate Bonds or Monthly Rate Bonds for purchase may be terminated or suspended under the circumstances described in the applicable Liquidity Facility.

Notwithstanding anything to the contrary herein, all Daily Rate Bonds, Weekly Rate Bonds or Monthly Rate Bonds as to which a written notice specifying the Purchase Date has been delivered (and which have not been tendered to the Tender Agent) shall be deemed tendered on the Purchase Date specified. From and after the specified Purchase Date of a Multi-Modal Bond or Multi-Modal Bonds tendered to the Tender Agent or deemed tendered, the former Owner of such a Multi-Modal Bond or Multi-Modal Bonds shall be entitled solely to the payment of the Purchase Price of such Multi-Modal Bond or Multi-Modal Bonds tendered or deemed tendered in the following manner: not later than 2:30 p.m., New York City time, on each Purchase Date, the Tender Agent shall disburse the Purchase Price of Multi-Modal Bonds to be purchased on such Purchase Date to the Owners thereof (upon surrender thereof for payment of such Purchase Price), from the following sources and in the following order of priority:

- (i) Moneys on deposit in the Remarketing Account of the Purchase Fund (representing the proceeds of the remarketing by the Remarketing Agent of such Multi-Modal Bonds);
- (ii) If a Liquidity Facility is in effect on such Purchase Date, moneys on deposit in the Liquidity Account of the Purchase Fund (representing the proceeds of a Liquidity Facility Request); and
- (iii) Moneys on deposit in the Commission Account (representing amounts paid by the Commission to the Tender Agent for the purchase of such Multi-Modal Bonds).

If the funds available (from the sources indicated above) for the purchase of Series 2006 Multi-Modal Bonds subject to purchase on a Purchase Date are insufficient to purchase all of the Bonds subject to purchase on such Purchase Date (including Undelivered Bonds), then, no purchase of any Series 2006 Multi-Modal Bonds shall occur on such Purchase Date and, on such Purchase Date, the Tender Agent shall (i) return all of such Series 2006 Multi-Modal Bonds that were tendered to the Owners thereof, (ii) return all moneys received by the Tender Agent for the purchase of such Series 2006 Multi-Modal Bonds to the respective Persons that provided such moneys (in the respective amounts in which such moneys were so provided), and (iii) notify the Trustee of the foregoing. If the Liquidity Facility is in effect, no such failure to purchase 2006 Bonds shall constitute an Event of Default.

The Tender Agent shall promptly return any notice of tender delivered (together with the Multi-Modal Bonds submitted therewith) that is incomplete or improperly completed or not delivered within the times required by this Section to the Person or Persons submitting such notice and Multi-Modal Bonds upon surrender of the receipt, if any, issued therefor.

Notwithstanding the foregoing, if the Multi-Modal Bonds are held in a book-entry form at the Securities Depository, the right to optionally tender Daily Rate Bonds, Weekly Rate Bonds or Monthly Rate Bonds may be exercised by the beneficial owners of those Multi-Modal Bonds. Such right shall be exercised by delivery by a beneficial owner to the Remarketing Agent no later than the times specified above of the notice described above stating that such beneficial owner will cause its beneficial interest (or portion thereof in an Authorized Denomination) to be tendered, the amount of such interest to be tendered, the date on which such interest will be tendered and the identity of the Participant through which the beneficial owner maintains its interest. Upon delivery of such notice, the beneficial owner must make arrangements to have its beneficial ownership interest in the Multi-Modal Bonds being tendered to the Tender Agent to be transferred on the records of the Securities Depository to the Tender Agent at or prior to 1:00 p.m., New York City time, on the Purchase Date.

**Mandatory Purchase of Multi-Modal Bonds.**

All the Multi-Modal Bonds shall be subject to mandatory tender for purchase by the Tender Agent at the Purchase Price on the following Purchase Dates:





- (i) each Conversion Date;
- (ii) the first day after the last day of each Short-Term Interest Period;
- (iii) the first day after the last day of each Long-Term Interest Period;
- (iv) the fifth day next preceding each Expiration Date (unless, prior to the fifth day next preceding that Expiration Date, that Expiration Date is extended);
- (v) each Substitution Date by a draw on the applicable Liquidity Facility being replaced and substituted and not on the new Substitute Liquidity Facility; and
- (vi) any Termination Date.

Notice of mandatory tender of Multi-Modal Bonds shall be given by the Trustee no fewer than 10 days prior to the applicable Purchase Date to the Owners of the Multi-Modal Bonds (at their addresses as they appear on the registration books of the Trustee as of the date of such notice) by first-class mail.

Multi-Modal Bonds to be purchased as set forth above shall be delivered by the Owners thereof to the Tender Agent and the Remarketing Agent (together with necessary assignments and endorsements) at or prior to 1:00 p.m., New York City time, on the applicable Purchase Date.

Owners may not elect to retain Multi-Modal Bonds subject to mandatory tender for purchase. Any Multi-Modal Bonds to be purchased by the Tender Agent pursuant to the Indenture that are not delivered for purchase on or prior to the Purchase Date, for which there has been irrevocably deposited in trust with the Trustee or the Tender Agent an amount sufficient to pay the Purchase Price of such Multi-Modal Bonds, shall be deemed to have been delivered to the Tender Agent for purchase, and the Owners of such Multi-Modal Bonds shall not be entitled to any payment (including any interest to accrue on or after the Purchase Date) other than the respective Purchase Prices of such Multi-Modal Bonds, and such Multi-Modal Bonds shall not be entitled to any benefits of this Supplemental Indenture No. 8, except for payment of such Purchase Price out of the moneys deposited for such payment as aforesaid.

In addition to any other requirements set forth in Supplemental Indenture No. 8, notices of mandatory tender mailed to Bondowners shall, among other things, include the following:

-  specify the proposed Purchase Date and the event which gives rise to the proposed Purchase Date;
-  in the case of mandatory tender upon any proposed conversion of Multi-Modal Bonds, state that such conversion and such mandatory tender will not occur if certain events and conditions specified in the Indenture do not occur or are not satisfied (and summarize those events and conditions);
-  in the case of mandatory tender upon the proposed conversion of Auction Rate Bonds to Daily Rate Bonds, Weekly Rate Bonds, Monthly Rate Bonds, Short-Term Rate Bonds or Long-Term Rate Bonds, identify the Liquidity Provider, if any, and the projected rating or ratings of the Multi-Modal Bonds following the Conversion Date, or state that there shall be no separate Liquidity Provider other than the Commission;
-  in the case of mandatory tender on the fifth day next preceding the Expiration Date, state that such mandatory tender will not occur, if, on or prior to such fifth day, the Expiration Date is extended; and



- in the case of mandatory tender on a Substitution Date, state the information required by the Indenture in connection with the delivery of a Substitute Liquidity Facility.

If, following the giving of notice of mandatory tender of Multi-Modal Bonds, an event occurs which, in accordance with the terms of Supplemental Indenture No. 8, causes such mandatory tender not to occur, then (i) the Trustee shall so notify the Owners of the Multi-Modal Bonds (at their addresses as they appear on the registration books of the Trustee on the date of such notice), by first-class mail, as soon as may be practicable after the applicable Purchase Date, and (ii) the Tender Agent shall return to their Owners any Multi-Modal Bonds tendered to the Tender Agent in connection with such mandatory tender of Multi-Modal Bonds.

If the Trustee receives notice that an Automatic Termination Event or an Automatic Suspension Event (as such terms are defined in the Standby Bond Purchase Agreements) exists under a Standby Bond Purchase Agreement, or the Bank is otherwise no longer obligated to purchase Eligible Bonds (as defined in the Standby Bond Purchase Agreements) under the purchase provisions of the Standby Bond Purchase Agreements, as described below, the Trustee shall promptly notify the Multi-Modal Bondholders that such notice has been received and that Multi-Modal Bonds tendered for purchase pursuant to the mandatory tender provisions of the Supplemental Indenture No. 8 will no longer be purchased by the Bank. The Bonds shall nevertheless be subject to mandatory tender under such circumstances in accordance with the provisions for mandatory tender discussed herein, but the Purchase Price of Multi-Modal Bonds so tendered will be paid only from remarketing proceeds or funds contributed by the Commission at its option. Failure to pay Purchase Price shall not constitute a default or an Event of Default on the Multi-Modal Bonds. Payment of Purchase Price of the Multi-Modal Bonds is not insured by the Bond Insurer under the Bond Insurance Policy.

## **REDEMPTION OF MULTI-MODAL BONDS**

**Optional Redemption.** The Multi-Modal Bonds are subject to optional redemption as follows:

- Daily Rate Bonds, Weekly Rate Bonds and Monthly Rate Bonds** are subject to redemption and payment prior to maturity, at the option of the Commission upon written direction from the Commission, in whole or in part on any Interest Payment Date at the redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date.
- Short-Term Rate Bonds** are subject to redemption and payment prior to maturity, at the option of the Commission in whole or in part on any Interest Payment Date at the redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date.
- Long-Term Rate Bonds** are subject to redemption in whole or in part, on the day after the end of each Long-Term Interest Period, at the option of the Commission, at a redemption price equal to 100% of the principal amount redeemed, plus interest accrued to the redemption date.
- Long-Term Rate Bonds and Fixed Rate Bonds** are subject to redemption and payment prior to maturity, at the option of the Commission, on and after the no-call period shown below, in whole or in part at any time at the respective redemption prices set out below, plus accrued interest thereon to the redemption date (unless an alternate optional redemption schedule is determined pursuant to this subparagraph):

<b>Fixed Rate Period or Long-Term Interest Period</b>	<b>No-Call Period</b>	<b>Premium</b>
Equal to or greater than 13 years	8 years	2% in first year, 1% in second year and 0% thereafter
Equal to or greater than 10 years but less than 13 years	5 years	2% in first year, 1% in second year and 0% thereafter
Equal to or greater than 7 years but less than 10 years	3 years	1.5% in first year, 0.5% in second year and 0% thereafter
Equal to or greater than 4 years but less than 7 years	3 years	1% in first year, 0% thereafter
Equal to or greater than 2 years but less than 4 years	1 years	0.5% in the first year, 0% thereafter
Greater than 1 year but less than 2 years	1 years	0% at all times
One year	non-callable	

Notwithstanding the foregoing, if before the first day of a Long-Term Interest Period or Fixed Rate Period an alternate optional redemption schedule is delivered by the Commission to the Trustee setting forth redemption dates and redemption prices during that Fixed Rate Period or Long-Term Interest Period together with a certificate of the Remarketing Agent certifying that the redemption terms set forth therein are advantageous for the Remarketing Agent to remarket those Bonds for that period and a Favorable Opinion of Bond Counsel, then the Bonds shall be subject to redemption during that period in accordance with that optional redemption schedule rather than the schedule set forth above.

**Mandatory Redemption.** The Series 2006 Multi-Modal Bonds maturing on December 1, 2022 shall be subject to mandatory sinking fund redemption prior to maturity by the Commission in part on December 1 of the respective years and in the amount set forth below, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date:

2006 Series B Bonds Maturing December 1, 2022		2006 Series C Bonds Maturing December 1, 2022	
Year (December 1)	Principal Amount	Year (December 1)	Principal Amount
2006	\$2,210,000	2006	\$2,210,000
2007	0	2007	0
2008	6,200,000	2008	6,200,000
2009	6,455,000	2009	6,455,000
2010	6,730,000	2010	6,730,000
2011	6,965,000	2011	6,965,000
2012	7,280,000	2012	7,280,000
2013	7,585,000	2013	7,585,000
2014	7,905,000	2014	7,905,000
2015	8,245,000	2015	8,245,000
2016	8,605,000	2016	8,605,000
2017	8,970,000	2017	8,970,000
2018	9,355,000	2018	9,355,000
2019	9,755,000	2019	9,755,000
2020	10,180,000	2020	10,180,000
2021	10,615,000	2021	10,615,000
2022*	870,000	2022*	870,000

\* Stated Maturity

**Mandatory Redemption of Bank Bonds.** Any Bank Bonds from time to time outstanding shall be subject to mandatory redemption in the amounts and at the times and at the redemption prices specified therefor in the applicable Standby Bond Purchase Agreement or other agreement with the Liquidity Provider applicable thereto.

**Notwithstanding anything herein to the contrary, any Bank Bonds shall be selected for redemption prior to the selection of any other Multi-Modal Bonds.**

**Selection of 2006 Bonds to be Redeemed.** 2006 Bonds shall be redeemed only in Authorized Denominations. If less than all 2006 Bonds of a Series are to be redeemed and paid prior to maturity, such 2006 Bonds shall be selected by the Trustee by such method as the Trustee shall deem fair and appropriate; provided that Liquidity Provider Bonds and Commission Bonds, in that order, shall be redeemed before other 2006 Bonds are redeemed. In the case of a partial redemption of 2006 Bonds when 2006 Bonds of denominations greater than the minimum Authorized Denomination are then Outstanding, then for all purposes in connection with such redemption each principal amount equal to the minimum Authorized Denomination shall be treated as though it was a separate 2006 Bond of the minimum Authorized Denomination. If it is determined that a portion, but not all, of the principal amount represented by any 2006 Bond is to be selected for redemption, then upon notice of intention to redeem such portion, the Owner of such 2006 Bond or such Owner's attorney or legal representative shall forthwith present and surrender such 2006 Bond to the Trustee (1) for payment of the redemption price (including the premium, if any, and interest to the date fixed for redemption) of the principal amount called for redemption, and (2) for exchange, without

charge to the Owner thereof for a new 2006 Bond or 2006 Bonds of the aggregate principal amount of the unredeemed portion of the principal amount of such 2006 Bond. If the Owner of any such 2006 Bond shall fail to present such 2006 Bond to the Trustee for payment and exchange as aforesaid, said 2006 Bond shall, nevertheless, become due and payable on the redemption date to the extent of the principal amount called for redemption (and to that extent only).

**Notice and Effect of Call for Redemption.** Official notice of any such redemption shall be given by the Trustee on behalf of the Commission by mailing a copy of an official redemption notice by first class mail at least 30 days and not more than 60 days prior to the redemption date to each Registered Owner of the 2006 Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such Registered Owner to the Trustee. As long as DTC remains the sole registered owner of the 2006 Bonds, notice of redemption shall be sent to DTC as provided in the Indenture. Such mailing shall not be a condition precedent to such redemption and failure to mail any such notice shall not affect the validity of the proceedings for the redemption of 2006 Bonds. Notice of redemption having been given as aforesaid, the 2006 Bonds or portions thereof so called for redemption shall become due and payable at the applicable redemption price therein provided, and from and after the date so fixed for redemption, interest on the 2006 Bonds or portions thereof so called for redemption shall cease to accrue and become payable. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the 2006 Bonds called for redemption or of any other action premised on such notice. See "BOOK-ENTRY ONLY SYSTEM."

In the case of an optional redemption, the notice may state (1) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Trustee no later than the redemption date and (2) that the Commission retains the right to rescind such notice at any time prior to the scheduled redemption date if the Commission delivers a certificate of a Commission Official to the Trustee instructing the Trustee to rescind the redemption notice, and such notice and optional redemption shall be of no effect if such moneys are not so deposited or if the notice is rescinded as described in the Indenture.

Failure to give any notice to any Owner, or any defect therein, shall not affect the validity of any proceedings for the redemption of any other 2006 Bonds. Any notice mailed shall be conclusively presumed to have been duly given and shall become effective upon mailing, whether or not any Owner receives the notice.



## SUMMARY OF CERTAIN PROVISIONS OF THE MULTI-MODAL BONDS

	DAILY RATE	WEEKLY RATE	MONTHLY RATE	SHORT TERM RATE	LONG TERM RATE
<b>Interest Payment Dates</b>	The first Business Day of each calendar month, any day that is a Conversion Date from a Weekly Rate Period or a Monthly Rate Period, as appropriate, and the maturity date for the Series 2006 Multi-Modal Bonds.	The first Business Day of each calendar month, any day that is a Conversion Date from a Daily Rate Period or a Monthly Rate Period, as appropriate, and the maturity date for the Series 2006 Multi-Modal Bonds.	The first Business Day of each calendar month, any day that is a Conversion Date from a Daily Rate Period or a Weekly Rate Period, as appropriate, and the maturity date for the Series 2006 Multi-Modal Bonds.	The first Business Day after the last day of each Short-Term Interest Period and any day that is a Conversion Date from Short-Term Rate Bonds.	Long-Term Rate Bonds, each June 1 and December 1 and any day that is a Conversion Date from a Long-Term Rate Period.
<b>Interest Rate Determination Dates</b>	Between 8:30 a.m. and 9:30 a.m., New York City time, on the commencement date of the Daily Interest Period to which it relates.	Not later than 4:00 p.m., New York City time, on the Business Day immediately preceding the commencement date of the Weekly Interest Period.	By 4:00 p.m., New York City time, on the Business Day immediately preceding the commencement date of the Monthly Interest Period to which it relates.	Not later than 5:00 p.m. on the day preceding the first day of each Commercial Paper Rate Period.	Rate is as specified by the Commission to the Remarketing Agent at least 20 days prior to the commencement of the Long-Term Rate Period.
<b>Rate Periods</b>	From and including each Business Day to and including the day preceding the next Business Day.	From and including Wednesday of each week and ending on Tuesday of the following week.	From the first Business Day of the applicable month and ending on the day preceding the first Business Day of the next calendar month.	From and including the first day of each Commercial Paper Rate Period to and including the last day of each Commercial Paper Rate Period; such period not less than 1 day and not more than 270 days.	From a Conversion Date and subsequently on a June 1 or December 1 which is at least 12 calendar months after the Conversion Date to a Long-Term Rate Period, and end on the day preceding either the commencement date of the following Long-Term Interest Period or the Conversion Date on which a different Interest Rate Period shall become effective or the maturity date for the Multi-Modal Bonds.
<b>Optional Tender Dates; Required Notice from Owner</b>	On any Business Day upon notice of tender not later than 9:30 a.m., New York City time, on the designated Purchase Date.	On any Business Day upon delivery of a notice not later than 5:00 p.m., New York City time, on a Business Day not fewer than seven days prior to the designated Purchase Date.	On any Business Day upon delivery of a notice not later than 5:00 p.m., New York City time, on a Business Day not fewer than seven days prior to the designated Purchase Date.	N/A	N/A
<b>Mandatory Purchase Dates</b>	Each Conversion Date; the 5 <sup>th</sup> day next preceding each Expiration Date (unless extended); each Substitution Date and any Termination Date.	Same as Daily Rate.	Same as Daily Rate.	Each Conversion Date; the 5 <sup>th</sup> day next preceding each Expiration Date (unless extended); each Substitution Date and any Termination Date; the first day after the last day of each Short-Term Interest Period.	Each Conversion Date; the 5 <sup>th</sup> day next preceding each Expiration Date (unless extended); each Substitution Date and any Termination Date; the first day after the last day of each Long-Term Interest Period.
<b>Redemption</b>	Optional at par on any Interest Payment Date.	Optional at par on any Interest Payment Date.	Optional at par on any Interest Payment Date.	Optional at par on any Interest Payment Date.	Optional at the redemptions prices set forth in the Indenture following the expiration of the no-call periods specified therein (as described above).

This summary does not include discussion of the Auction Rate and the Fixed Rate and is qualified in its entirety by reference to the remainder of this Official Statement, and by reference to the Multi-Modal Bonds and the Indenture. All references to specific times are to the prevailing local times in New York City, New York.

## PLAN OF FINANCING

The 2006 Bonds are being issued to provide funds to (a) pay the costs of funding various capital expenditures through May 31, 2009 included in the Commission's Ten Year Capital Plan (Fiscal Years 2006/2007 through 2015/2016) including, but not limited to the reconstruction of a road bed and roadway, the widening, replacing and redecking of certain bridges and the rehabilitation of certain interchanges; (b) fund necessary reserves to the extent required; (c) pay the premium for the Bond Insurance Policy; and (d) pay the costs of issuance of the 2006 Bonds.

### ESTIMATED SOURCES AND USES OF FUNDS

#### SOURCES OF FUNDS

Par Amount of Bonds	\$ 353,865,000
Net Original Issue Premium	5,704,907

#### TOTAL SOURCES

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**\$ 359,569,907**

#### USES OF FUNDS

Deposit to Construction Fund	\$ 350,000,000
Deposit to Debt Service Reserve Fund	5,900,750
Costs of Issuance <sup>1</sup>	3,669,157

#### TOTAL USES

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**\$ 359,569,907**

<sup>1</sup> Costs of Issuance include underwriters' discount, Remarketing Agent Fee, Bond Counsel fee, Underwriters Counsel fee, bond insurance premium and other legal fees, printing expenses, Financial Advisor's fee and Trustee's fee.

### BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2006 Bonds. The 2006 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2006 Bond certificate will be issued for each maturity of each Series of the 2006 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U. S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of 2006 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2006 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2006 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial

Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2006 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2006 Bonds, except in the event that use of the book-entry system for the 2006 Bonds is discontinued.

To facilitate subsequent transfers, all 2006 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2006 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2006 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2006 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2006 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2006 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of 2006 Bonds may wish to ascertain that the nominee holding the 2006 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2006 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2006 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2006 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2006 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Commission or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commission or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2006 Bonds at any time by giving reasonable notice to the Commission or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 2006 Bond certificates are required to be printed and delivered.

The Commission may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2006 Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Commission believes to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters, the Trustee, or the Commission.

NEITHER THE COMMISSION NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY PARTICIPANT, OR BY ANY PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BOOK-ENTRY 2006 BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY PARTICIPANT, OR BY ANY PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OR ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE APPLICABLE INDENTURE TO BE GIVEN HOLDERS OR OWNERS OF BOOK-ENTRY 2006 BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BOOK-ENTRY 2006 BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BOOK-ENTRY 2006 BONDS.

In the event that the Book-Entry Only System is discontinued and the Beneficial Owners become registered owners of the 2006 Bonds, the 2006 Bonds will be transferable in accordance with the provisions of the Indenture.

### **SECURITY FOR THE 2006 BONDS**

The 2006 Bonds are limited obligations of the Commission. They are secured, along with the other outstanding Bonds and certain other Parity Obligations, under the Indenture by the pledge by the Commission to the Trustee of (1) the Tolls, (2) all monies deposited into accounts or funds, other than the Rebate Fund, created by the Indenture, (3) any insurance proceeds required to be deposited under the Indenture, (4) all payments received pursuant to Parity Swap Agreements and (5) all investment earnings on all monies held in accounts and funds, other than the Rebate Fund, established by the Indenture (all five of these items being collectively referred to as the "Trust Estate"). OIL FRANCHISE TAX REVENUES AND REGISTRATION FEE REVENUES, AS WELL AS OTHER SOURCES OF THE COMMISSION'S REVENUES NOT DERIVED FROM TOLL REVENUE, INCLUDING CONCESSION REVENUE, ARE EXCLUDED FROM THE TRUST ESTATE. THE TRUST ESTATE ALSO EXCLUDES ALL MONIES HELD IN THE REBATE FUND. ANY ADDITIONAL BONDS ISSUED PURSUANT TO THE INDENTURE WILL BE EQUALLY AND RATABLY SECURED UNDER THE INDENTURE.

Payments of the principal of and the interest on the Bonds, including any Additional Bonds and payments on certain other Parity Obligations, are secured, *pro rata* and without preference or priority of one Bond or Parity Obligation over another, by a valid pledge of the Trust Estate and by the Indenture.

The Indenture further provides that the Commission may not issue Additional Bonds or incur other Parity Obligations except upon satisfaction of various requirements as expressly provided in the Indenture. See APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.

The Debt Service Reserve Fund secures the 2006A Bonds, as more fully described below. The Multi-Modal Bonds are not secured by moneys in the Debt Service Reserve Fund.

#### **Bonds and Other Parity Obligations**

The Commission has previously issued Bonds under the terms of the Indenture that have an equal claim to the Trust Estate with the 2006 Bonds. Currently, \$1,340,125,000 aggregate principal amount of Bonds are Outstanding. See APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.

In addition to the Outstanding Bonds, the Commission has entered into various interest rate exchange agreements with a notional amount of \$560,465,000 that constitute Parity Swap Agreements under the Indenture. Under the terms of the Indenture, amounts payable under Parity Swap Agreements, including termination payments, are secured on a parity with the Bonds in the Trust Estate. See "INTEREST RATE SWAP AGREEMENTS" and APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.

The Commission has also issued Oil Franchise Tax Revenue Bonds that are currently outstanding in the aggregate principal amount of \$ 611,650,000 and Registration Fee Revenue Bonds that are currently outstanding in the

aggregate principal amount of \$465,560,000. The Commission has entered into various interest rate exchange agreements with respect to certain Oil Franchise Tax Revenue Bonds and Registration Fee Revenue Bonds. Neither the Oil Franchise Tax Revenue Bonds nor the Registration Fee Revenue Bonds are secured by or have any interest in the Trust Estate.

### **Rate Covenant**

The Commission has agreed in the Indenture that it will at all times establish and maintain schedules of Tolls for traffic over the System so that the Net Revenues of the System in each Fiscal Year will at all times be at least sufficient to provide funds in an amount not less than (1) the greater of (i) 130% of the Annual Debt Service for such Fiscal Year on account of all Applicable Long-Term Indebtedness then outstanding under the provisions of the Indenture; or (ii) 100% of the Maximum Annual Debt Service on all Applicable Long-Term Indebtedness, plus (a) the amount of required transfers from the Revenue Fund to the credit of the Reserve Maintenance Fund pursuant to the Annual Capital Budget, and (b) an amount sufficient to restore any deficiency in the Debt Service Reserve Fund, if applicable, within an 18 month period; plus (2) the amount of any Short-Term Indebtedness outstanding under the Indenture for more than 365 consecutive days. In addition, the amount of Net Revenues in excess of the sum of the amounts set forth in clauses (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.

The Commission's failure to meet the Rate Covenant shall not constitute an Event of Default under the Indenture if (i) no Event of Default occurred in debt service payments as a result of such failure and (ii) the Commission promptly after determining that the Rate Covenant was not met retains a Consultant to make written recommendations as to appropriate revisions to the schedules of Tolls necessary or appropriate to meet the Rate Covenant and advises the Trustee in writing of such retention. Anything in the Indenture to the contrary notwithstanding, if the Commission shall comply with the recommendations of the Consultant in respect of Tolls, it will not constitute an Event of Default under the provisions of the Indenture if the Commission fails to meet the Rate Covenant during the succeeding Fiscal Year as long as no Event of Default has occurred in debt service payments. If the Commission does not comply with the recommendations of the Consultant in respect of Tolls, the Trustee may, and upon the request of the holders of not less than 25% in Principal Amount of the Bonds then outstanding and upon being indemnified to its satisfaction shall, institute and prosecute in a court of competent jurisdiction any appropriate action to compel the Commission to revise the schedules of Tolls. The Commission covenants that it will adopt and charge Tolls in compliance with any final order or decree entered in any such proceeding.

In the event that the Consultant shall fail to file with the Commission such recommendations in writing within sixty (60) days after such retention, the Trustee may designate and appoint a different Consultant to make recommendations as to an adjustment of the schedules of Tolls, which recommendations shall be reported in writing to the Commission and to the Trustee within sixty (60) days after such retention. Such written report shall for all purposes be considered to be the equivalent of and substitute for the recommendations of the Consultant retained by the Commission.

In preparing its recommendations, the Consultant may rely upon written estimates of Revenues prepared by the other Consultants of the Commission. Copies of such written estimates signed by such Consultants shall be attached to such recommendations. The Commission covenants that promptly after receipt of such recommendations and the adoption of any revised schedules of Tolls, certified copies thereof will be filed with the Trustee.

The Commission has agreed that Tolls will be classified in a reasonable way to cover all traffic, so that the Tolls may be uniform in application to all traffic falling within any reasonable class regardless of the status or character of any person, firm or corporation participating in the traffic; provided, however, that the foregoing shall not be interpreted to restrict the Commission's right, in its discretion in connection with its management of the System, to establish and maintain flexible Toll schedules including, but not limited to, provisions for, utilizing or otherwise taking into account, peak and nonpeak pricing, introductory pricing, weight, method of payment, frequency, carpooling, electronic Tolls or other new Toll collection technologies, traffic management systems, and similar classifications. The Commission has agreed that it shall not grant free passage or reduced Tolls within a class, except in the limited manner permitted by the Indenture, which includes, among others, for operational or safety reasons including, but not limited to, reasons arising out of a work stoppage, work slowdown or work action, and for use by the Army, Air Force, Navy, Coast Guard, Marine Corps or National Guard or any branch thereof in time of war or other emergency.

In the event the Commission did not meet the Rate Covenant for the preceding Fiscal Year, any classification resulting in a reduced Toll or new classification shall be subject to a Consultant approving the same before it is implemented. In all events, the Commission shall not make a change in classification or any new classification which would cause the Commission to fail to meet the Rate Covenant.

The Commission's covenant as to uniformity of Tolls shall not be construed as requiring that Tolls for any given class of traffic be identical in amount throughout the entire System for trips of approximately identical lengths. The Commission may fix and place in effect schedules of Tolls for any given class of traffic wherein the Tolls charged for travel on a given section of the System shall be different from the Tolls charged on another section of the System notwithstanding the fact that both of said sections may be of identical or approximately identical length.

### **Factors Affecting Toll Revenues**

The ability of the Commission to collect Tolls in amounts sufficient to comply with the covenants contained in the Indenture could be adversely affected by many factors, some of which are beyond the control of the Commission. For example, economic circumstances which result in significant motor vehicle acquisition or operating cost increases could adversely affect the number of motor vehicles in use. The cost of fuel could continue to increase which could adversely affect both the number of motor vehicles using the System and the mileage that such vehicles travel. Government regulations, such as Clean Air Act requirements, might also significantly restrict motor vehicle use and therefore diminish Tolls.

### **Revenue Fund**

All Revenues will be deposited daily, as far as practicable, with the Trustee or in the name of the Trustee with a depository or depositories designated by the Commission and approved by the Trustee, to the credit of the Revenue Fund. The monies in the Revenue Fund are to be held by the Trustee in trust and applied in accordance with the Indenture.

Except as otherwise provided in the Indenture, transfers from the Revenue Fund shall be made to the following funds and in the following order of Priority:

- (i) Rebate Fund;
- (ii) Operating Account;
- (iii) Debt Service Fund;
- (iv) Reserve Maintenance Fund;
- (v) Debt Service Reserve Fund, if applicable; and
- (vi) General Reserve Fund.

### **Operating Account**

The Commission shall establish an account known as the Operating Account which shall be held by the Commission in the name of the Commission outside of the Indenture until applied as set forth in the Indenture. The Trustee shall transfer from the Revenue Fund on or before the last Business Day of each month to the credit of the Operating Account an amount equal to (i) the amount shown by the Annual Operating Budget to be necessary to pay Current Expenses for the ensuing month and (ii) an amount certified by a Commission Official as being reasonably necessary to pay Current Expenses which are expected for such month, after taking into account the amount on deposit in the Operating Account (including the amount described in clause (i) above).

In making payments from the Operating Account, the Commission shall be deemed to be certifying that obligations in the stated amounts have been incurred by the Commission and that each item thereof was properly incurred in maintaining, repairing and operating the System, and has not been paid previously.

### **Debt Service Fund**

After first having made the foregoing specified deposits to the Operating Account, the Trustee is required to withdraw from the Revenue Fund and deposit to the applicable account in the Debt Service Fund held by the Trustee under the Indenture, the amounts hereinafter specified which shall be applied by the Trustee for the purposes for which the same shall be deposited:

- (1) On or before the last business day preceding an Interest Payment Date, an amount which equals the interest due on such Interest Payment Date;
- (2) On or before the last business day preceding a principal payment date, an amount which equals the principal amount of the Bonds or Parity Obligations maturing on such principal payment date; and
- (3) On the dates specified in any Supplemental Indenture relating to Additional Bonds or Parity Obligations, the amounts required to be deposited on said dates to the credit of the Interest Account or Principal Account pursuant to the provisions of such Supplemental Indenture for the purpose of paying the interest on and the principal of such Additional Bonds.

The Trustee is required to pay out of the Interest Account, from time to time, without further authorization from the Commission, and as the same shall become due and payable, the interest upon the Bonds, except to the extent payable from funds and accounts other than the Debt Service Reserve Fund, if applicable, as provided in any Supplemental Indenture. The Trustee is required likewise to pay out of the Principal Account, from time to time, without further authorization from the Commission, as the same shall become due and payable, the principal of the Bonds, except to the extent payable from funds and accounts other than the Debt Service Reserve Fund, if applicable, as provided in any Supplemental Indenture.

If at the time the Trustee is required to make a withdrawal from the Debt Service Fund and the monies therein shall not be sufficient for the purposes set forth above, the Trustee shall withdraw the amount of such deficiency from the monies on deposit in the following funds or accounts and transfer the same to the Debt Service Fund in the following order: the Debt Service Reserve Fund, if applicable, the General Reserve Fund, and the Reserve Maintenance Fund.

#### **Reserve Maintenance Fund**

In each Fiscal Year, after first having made the deposits provided by the Indenture, the Trustee shall transfer from the Revenue Fund on or before the last Business Day of each month to the credit of the Reserve Maintenance Fund the amount shown in the Annual Capital Budget for the ensuing month.

Except as otherwise provided in the Indenture, or except in case of an emergency, as characterized in a certificate signed by a Commission Official stating that the monies to the credit of the Operating Account are insufficient to meet such emergency, monies in the Reserve Maintenance Fund shall be disbursed to pay current capital expenditures shown in the Annual Capital Budget for the System, plus the cost of unusual or extraordinary maintenance (as determined solely by the Commission) and shall be disbursed only for such purposes, except to the extent hereinafter provided. Such purposes shall include, but not be limited to, paying the cost of constructing, improving and reconstructing improvements and betterments to all parts of the System now or hereafter open to vehicular traffic, including, without limitation, additional lanes, tunnels, interchanges, Toll plazas, bridges and connecting roads, transit interface facilities and any other improvements deemed necessary or desirable by the Commission.

Payments from the Reserve Maintenance Fund, except the transfers which the Trustee is authorized to make, shall be made pursuant to a requisition process which follows the process described in the Indenture for payments from the Construction Fund.

The Trustee shall transfer any monies from the Reserve Maintenance Fund to the credit of the General Reserve Fund from time to time upon the receipt of a certificate of a Commission Official certifying that the amount so to be transferred is not required for the purposes for which the Reserve Maintenance Fund has been created.

#### **Debt Service Reserve Fund**

A Debt Service Reserve Fund has been established under the Indenture to provide additional security for Debt Service Reserve Fund Bonds. The 2006A Bonds are Debt Service Reserve Fund Bonds and a deposit of proceeds of the 2006A Bonds is being made to the Debt Service Reserve Fund so that the balance in the Debt Service Reserve Funds is at least equal to the Debt Service Reserve Requirement for Debt Service Reserve Fund Bonds. **The Multi-Modal Bonds are not Debt Service Reserve Fund Bonds and, accordingly, are not secured by moneys in the Debt Service Reserve Fund.** No deposits are being made with respect to the Multi-Modal Bonds

The Indenture requires that the balance in the Debt Service Reserve Fund be maintained at the Debt Service Reserve Requirement, which is an amount equal to the Maximum Annual Debt Service on account of all the Debt

Service Reserve Fund Bonds. Debt Service Reserve Fund Bonds include Long-Term Indebtedness specified by the Commission in the Original Indenture or any Supplemental Indenture as being secured by the Debt Service Reserve Fund. See APPENDIX B, SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – THE INDENTURE - Debt Service Reserve Fund for information with respect to the Debt Service Reserve Fund under the Original Indenture.

In each Fiscal Year, after first having made the deposits provided by the Indenture, the Trustee shall transfer from the Revenue Fund on or before the last day of each month to the credit of the Debt Service Reserve Fund (1) the amount, if any, required to make the amount on deposit in the Debt Service Reserve Fund equal to the Debt Service Reserve Requirement which restoration, as provided in the Rate Covenant contained in the Indenture, is intended to occur within 18 months and (2) the amount set forth in a Supplemental Indenture if an amount different from the Debt Service Reserve Requirement is required.

To the extent accounts are created in the Debt Service Reserve Fund for Debt Service Reserve Fund Bonds, including the creation of an account for the 2006 Bonds, the funds and DSRF Security, as hereinafter defined, held therein shall be available to make payments required under the Indenture for the benefit of all Debt Service Reserve Fund Bonds.

Monies held in the Debt Service Reserve Fund shall be used for the purpose of paying interest on, and maturing principal of, Debt Service Reserve Fund Bonds whenever and to the extent that the monies held for the credit of the Debt Service Fund shall be insufficient for such purpose. If at any time the monies and the principal amount of any DSRF Security (as hereinafter defined) held in the Debt Service Reserve Fund shall exceed the Debt Service Reserve Requirement, the Commission shall direct whether such excess monies shall be transferred by the Trustee to the credit of the General Reserve Fund or used to reduce the principal amount of any DSRF Security as described below.

In the event the Trustee shall be required to withdraw funds from the Debt Service Reserve Fund to restore a deficiency in the Debt Service Fund arising with respect to Debt Service Reserve Fund Bonds, the amount of such deficiency shall be allocated *pro rata* among such Debt Service Reserve Fund Bonds.

In lieu of the deposit of monies into the Debt Service Reserve Fund, the Commission may cause to be provided a surety bond, an insurance policy, a letter of credit or similar financial instrument satisfactory to the Rating Agency (as evidenced by a letter from the Rating Agency confirming that the DSRF Security will not result in the rating on any outstanding Bonds being downgraded) (each, a "DSRF Security") payable to the Trustee for the benefit of the Bondholders in an amount equal to the difference between the Debt Service Reserve Requirement and the amounts then on deposit in the Debt Service Reserve Fund. The DSRF Security shall be payable (upon the giving of notice as required under the Indenture) on any Interest Payment Date on which monies will be required to be withdrawn from the Debt Service Reserve Fund and applied to the payment of the principal of or interest on any Bonds to the extent that such withdrawals cannot be made by amounts on deposit in the Debt Service Reserve Fund.

If a disbursement is made pursuant to a DSRF Security, the Commission shall be obligated either (i) to reinstate the maximum limits of such DSRF Security or (ii) to deposit into the Debt Service Reserve Fund, funds in the amount of the disbursement made under such DSRF Security, or a combination of such alternatives, as shall provide that the amount credited to the Debt Service Reserve Fund equals the Debt Service Reserve Requirement within a time period of 18 months.

If the DSRF Security shall cease to have a rating described above, the Commission shall use reasonable efforts to replace such DSRF Security with one having the required rating, but shall not be obligated to pay, or commit to pay, increased fees, expenses or interest in connection with such replacement or to deposit Revenues in the Debt Service Reserve Fund in lieu of replacing such DSRF Security with another.

### **General Reserve Fund**

After first having made the above specified deposits to the Operating Account, the Debt Service Fund, the Reserve Maintenance Fund and the Debt Service Reserve Fund, if applicable, and while any Bonds are outstanding, the Trustee is required to transfer from the Revenue Fund on or before the last Business Day of each Fiscal Year (or more frequently if requested by a Commission Official) to the credit of the General Reserve Fund any funds which a Commission Official determines to be in excess of the amount required to be reserved therein for future transfers to the Debt Service Fund. Monies in the General Reserve Fund may be expended by the Commission to restore



deficiencies in any funds or accounts created under the Indenture, and absent any such deficiency, for any of the following purposes, with no one item having priority over any of the others:

- (1) to purchase or redeem Bonds;
- (2) to secure and pay the principal or redemption price of, and interest on, any Subordinated Indebtedness;
- (3) to make payments into the Construction Fund;
- (4) to fund improvements, extensions and replacements of the System; or
- (5) to further any corporate purpose.

## **BOND INSURANCE**

### **Payment Pursuant to Financial Guaranty Insurance Policy**

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the “Bond Insurance Policy” or “Financial Guaranty Insurance Policy”) relating to the 2006 Bonds effective as of the date of issuance of the 2006 Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, New York, New York or any successor thereto (the “Insurance Trustee”) that portion of the principal of and interest on the 2006 Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Commission (the “Obligor” as the Commission is defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Obligations and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the 2006 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding 2006 Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding 2006 Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the 2006 Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a 2006 Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Commission has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of 2006 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 2006 Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder’s right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the 2006 Bond, appurtenant coupon, if any, or right to payment of principal or interest on such 2006 Bond and will be fully subrogated to the surrendering Holder's rights to payment.

The Financial Guaranty Insurance Policy does not insure against loss relating to payments made in connection with the sale of 2006 Bonds at Auctions or losses suffered as a result of a Holder's inability to sell 2006 Bonds.

The Financial Guaranty Insurance Policy does not insure against loss relating to payments of the purchase price of 2006 Bonds upon tender by a registered owner thereof or any preferential transfer relating to payments of the purchase price of 2006 Bonds upon tender by a registered owner thereof.

### **Ambac Assurance Corporation**

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$9,417,000,000 (unaudited) and statutory capital of approximately \$5,879,000,000 (unaudited) as of March 31, 2006. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of a bond by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such bond and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Commission of the 2006 Bonds.

Ambac Assurance makes no representation regarding the 2006 Bonds or the advisability of investing in the 2006 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE."

### **Available Information**

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

### **Incorporation of Certain Documents by Reference**

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and filed on March 13, 2006;
2. The Company's Current Report on Form 8-K dated and filed on April 26, 2006; and

3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2006 and filed on May 10, 2006.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

## **STANDBY BOND PURCHASE AGREEMENTS**

### **General**

The purchase price of each Series of Multi-Modal Bonds in a Daily Rate Period, a Weekly Rate Period or a Monthly Rate Period which are tendered or deemed tendered for purchase will be payable, to the extent that remarketing proceeds are not sufficient therefor, from funds made available by the Bank pursuant to the applicable Standby Bond Purchase Agreement. Each Standby Bond Purchase Agreement will provide liquidity for the purchase of those 2006B Bonds or 2006C Bonds, as the case may be, which are optionally tendered for purchase or are subject to mandatory purchase but not remarketed by the applicable Remarketing Agent. Each Standby Bond Purchase Agreement is scheduled to expire (absent certain events of default described herein) on June 20, 2007. The enforceability of each Standby Bond Purchase Agreement may be limited by the bankruptcy, insolvency or reorganization of the Bank. No assurances can be given that in such event the obligations of the Bank under such Standby Bond Purchase Agreement would survive. For further information concerning the Liquidity Provider, see APPENDIX F – THE BANK.

### **Purchase of Tendered Bonds by the Bank**

From time to time during the period prior to the expiration or earlier termination of each Standby Bond Purchase Agreement (the "Purchase Period") the Bank will purchase the related Series of Multi-Modal Bonds during a Weekly Rate Period, Daily Rate Period or Monthly Rate Period, as applicable, that have been tendered for purchase pursuant to the Indenture under an optional tender but not remarketed or which are tendered pursuant to a mandatory tender under the Indenture and in any event upon receipt of an appropriate notice from the Trustee pursuant to the Indenture and the applicable Standby Bond Purchase Agreement on the Purchase Date. See "DESCRIPTION OF THE 2006 BONDS — Multi-Modal Bonds — Tenders and Purchase of Multi-Modal Bonds." The price to be paid by the Bank for such Multi-Modal Bonds will be equal to the aggregate principal amount of such Multi-Modal Bonds plus interest accrued thereon to the date of such purchase calculated at the applicable interest rate for such Multi-Modal Bonds. The Bank's commitment with respect to interest under each Standby Bond Purchase Agreement shall be equal to 34 days' interest on the principal amount of the related Series of Multi-Modal Bonds outstanding (assuming an interest rate of 12% per annum).

UNDER CERTAIN CIRCUMSTANCES DESCRIBED BELOW, THE OBLIGATION OF THE BANK TO PURCHASE MULTI-MODAL BONDS OPTIONALLY TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY PURCHASE MAY BE AUTOMATICALLY TERMINATED OR SUSPENDED WITHOUT PRIOR NOTICE TO ANY PERSON, INCLUDING HOLDERS OF THE MULTI-MODAL BONDS. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE MULTI-MODAL BONDS TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY PURCHASE. THE BOND INSURANCE POLICY DOES NOT INSURE PAYMENT OF THE PURCHASE PRICE OF THE MULTI-MODAL BONDS.

### **Events of Default and Remedies**

For purposes of this section and as otherwise used in this Official Statement, the following terms have the meanings ascribed to them:

"Bank Bond" means each 2006B Bond or 2006C Bond, as the case may be, purchased by the Bank pursuant to the applicable Standby Bond Purchase Agreement and held by or for the account of a Bank Bondholder in accordance with the terms of such Standby Bond Purchase Agreement, until purchased from or retained in accordance with such Standby Bond Purchase Agreement or redeemed in accordance with such Standby Bond Purchase Agreement or otherwise.

“Eligible Bonds” with respect to each Series of Multi-Modal Bonds, means any Multi-Modal Bonds bearing interest at a Weekly Rate, a Daily Rate or a Monthly Rate, as applicable, other than Bank Bonds and such Multi-Modal Bonds owned by, for the account of, or on behalf of the Commission.

“Indebtedness” of the Commission means at any date, without duplication, (a) all obligations of the Commission for borrowed money, (b) all obligations of the Commission evidenced by bonds, debentures, notes or other similar instruments, (c) all obligations of the Commission to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business, (d) all obligations of the Commission as lessee under capital leases, (e) all obligations of the Commission to purchase securities (or other assets) that arise out of or in connection with the sale of the same or substantially similar securities or assets, (f) all obligations of the Commission to reimburse any bank or any other Person in respect of amounts paid under a letter of credit or any other similar instrument, (g) all Indebtedness of others secured by a lien on any asset of the Commission, whether or not such indebtedness is assumed by the Commission and (h) all guarantees by the Commission of Indebtedness of other Persons.

“Insurer Adverse Change” occurs when the financial strength ratings assigned to the Bond Insurer by any two of Moody’s, S&P or Fitch shall fall below “Aa3”, “AA-” or “AA-”, respectively, and such financial strength ratings shall remain below “Aa3”, “AA-” or “AA-”, respectively, for a period of 90 consecutive days.

“Related Documents” with respect to each Standby Bond Purchase Agreement, means such Standby Bond Purchase Agreement, the Indenture, the applicable Multi-Modal Bonds, the Official Statement, the applicable Purchase Contract, the Bond Insurance Policy, the applicable Custody Agreement (related to each Standby Bond Purchase Agreement) and the applicable Remarketing Agreement, as the same may be amended or modified from time to time in accordance with their respective terms and the terms of such Standby Bond Purchase Agreement.

Each of the following events constitutes an “Event of Default” under a Standby Bond Purchase Agreement:

(a) Any principal or interest due on the applicable Multi-Modal Bonds is not paid by the Commission when due and such principal or interest is not paid by the Bond Insurer when, as, and in the amounts required to be paid pursuant to the terms of the Bond Insurance Policy or the Bond Insurer defaults in any payment of amounts payable by it when due under any bond insurance policy (other than the Bond Insurance Policy) with respect to publicly-rated debt representing an obligation of the Bond Insurer on a parity with or senior to the Bond Insurer’s obligations under the Bond Insurance Policy, and such default continues for a period of seven (7) days; or

(b) (i) The President or any Executive Vice President of the Bond Insurer claims, in writing, that the Bond Insurance Policy, with respect to the payment of principal of or interest on the applicable Multi-Modal Bonds, is not valid and binding on the Bond Insurer in accordance with its terms, or repudiates the obligations of the Bond Insurer under the Bond Insurance Policy with respect to the payment of principal of and interest on such Multi-Modal Bonds, or denies that the Bond Insurer has any or further liability or obligation under the Bond Insurance Policy to the extent set forth in the Bond Insurance Policy, (ii) any material provision relating to payment under the Bond Insurance Policy at any time for any reason ceases to be valid and binding on the Bond Insurer in accordance with the terms of the Bond Insurance Policy or is declared to be null and void by a court or other governmental agency of appropriate jurisdiction, or (iii) the validity or enforceability of the Bond Insurance Policy with respect to payment of principal of or interest on the applicable Multi-Modal Bonds is contested by the Bond Insurer; or

(c) (i) A proceeding is instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect to the Bond Insurer or for any substantial part of its property under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee or sequestrator (or other similar official) and such proceeding is not terminated for a period of sixty (60) consecutive days or such court enters an order granting the relief sought in such proceeding; (ii) the Bond Insurer institutes or takes any corporate action for the purpose of instituting any such proceeding; or (iii) the Bond Insurer becomes insolvent or unable to pay its debts as they mature or claims under any of its insurance policies as such claims are made, commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, consents to the entry of an order for relief in an involuntary case under any such law or consents to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of the Bond Insurer or for any substantial part of its property, or makes a general assignment for the benefit of creditors, or fails generally to pay its debts or claims as they become due, or takes any corporate action in furtherance of any of the foregoing;

provided, however, that the Bond Insurer's failure to make payments on any financial guaranty insurance policies or surety bonds because of a legitimate dispute between the Bond Insurer and the beneficiary of such policies or surety bonds will not in and of itself constitute a failure of the Bond Insurer to generally pay its debts or claims as they become due; or

(d) Any representation or warranty made by the Commission under or in connection with the applicable Standby Bond Purchase Agreement or any of the applicable Related Documents proves to be untrue in any material respect on the date as of which it was made; or

(e) Nonpayment of any facility fees payable under the applicable Standby Bond Purchase Agreement within fifteen (15) Business Days after the Commission and the Bond Insurer have received notice from the Bank that the same were not paid when; or

(f) Nonpayment of any other fees, or other amounts when due under the applicable Standby Bond Purchase Agreement, if such failure to pay when due continues for fifteen (15) Business Days after written notice thereof to the Commission by the Bank; or

(g) The breach by the Commission of any of the other terms or provisions of the applicable Standby Bond Purchase Agreement which are not remedied within thirty (30) days after written notice thereof has been received by the Commission from the Bank; provided however that there will be no 30-day cure period for a failure to observe or perform certain covenants and agreements made by the Commission and set forth in the applicable Standby Bond Purchase Agreement; or

(h) Any material provision of the applicable Standby Bond Purchase Agreement or any applicable Related Document (other than the Bond Insurance Policy) at any time for any reason ceases to be valid and binding on the Commission or the then current related Remarketing Agent, as applicable, or is declared to be null and void, or the validity or enforceability thereof is contested by the Commission or the then current related Remarketing Agent, as applicable, or by any Governmental Authority having jurisdiction, or the Commission or the then current related Remarketing Agent, as applicable, deny that it has any or further liability or obligation under any such document and the occurrence of such event would have a material adverse effect on the security for the related Series of Multi-Modal Bonds or the Commission's ability to pay its obligations under such Standby Bond Purchase Agreement or the Bank Bonds; or

(i) (i) The Commission's commencement of any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the Commission's making a general assignment for the benefit of its creditors; or (ii) there is commenced against the Commission, any case, proceeding or other action of a nature referred to in clause (i) above which (x) results in an order for such relief or in the appointment of a receiver or similar official or (y) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (iii) there is commenced against the Commission, any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which is not vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (iv) the Commission takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii) or (iii) above; or (v) the Commission is generally not, or is unable to, or so admits in writing its inability to, pay its debts; or

(j) Nonpayment of principal and interest due (whether by scheduled maturity, required prepayment, demand or otherwise) on any bonds or other obligations payable by the Commission from the Trust Estate; or

(k) (i) Default by the Commission in any payment of principal of or premium, if any, or interest on any Parity Obligations in excess of \$1,000,000 which continues beyond the expiration of the applicable grace period, if any, (ii) the failure by the Commission to perform any other agreement, term or condition contained in any agreement, mortgage or other instrument under which any such obligation is created or secured, which results in Parity Obligations in excess of \$1,000,000 becoming due and payable or which enables (or, with the giving of notice or lapse of time, or both would enable) the holder of Parity Obligations in excess of \$1,000,000 or any Person acting on such holder's behalf to accelerate the maturity thereof; provided, however, that in either case, the Bank will not be

entitled to pursue any remedies if, within the time allowed for service of a responsive pleading in any proceeding to enforce payment of such Parity Obligations under the laws governing such proceeding, (A) the Commission in good faith commences proceedings to contest the existence or payment of such Indebtedness and the opposing party in such proceedings is stayed from exercising remedies, or (B) a surety bond in the amount of such Indebtedness is obtained or sufficient moneys are escrowed with a bank or trust company for the payment of such Indebtedness, but only so long as, in the case of either (A) or (B), such default does not result in the occurrence of an event of default under any of the Related Documents or with respect to other Parity Obligations; or (iii) a final judgment or order for the payment of money in an amount in excess of \$1,000,000 has been rendered against the Commission and such judgment or order is not (x) satisfied, stayed or bonded pending appeal or (y) subject to a written agreement by the judgment holder thereof pursuant to which such judgment holder has agreed that such judgment or order will not in any manner be executed upon pending appeal, in each case within a period of thirty (30) days from the date on which such judgment or order was first so rendered.; or

(l) an event of default or default occurs under any of the Related Documents; or

(m) an Event of Default occurs under any other Standby Bond Purchase Agreement relating to any of the Multi-Modal Bonds.

If any Event of Default occurs and is continuing under a Standby Bond Purchase Agreement:

(a) In the case of an Automatic Suspension Event (described in paragraphs (b) and (c)(i) under “Events of Default” above), the Bank’s obligation to purchase the applicable Multi-Modal Bonds will immediately be suspended without notice or demand to any person and thereafter the Bank will be under no obligation to purchase such Multi-Modal Bonds until its obligation to purchase such Multi-Modal Bonds is reinstated as described below. Promptly upon an Event of Default specified in paragraph (b) above or a Default specified in paragraph (c)(i) above, the Bank will notify the Commission, the Trustee, the Bond Insurer and the applicable Remarketing Agent of such suspension in writing. With respect to an Event of Default specified in paragraph (b) above, if (i) a court with jurisdiction to rule on the validity of the Bond Insurance Policy thereafter enters a final, nonappealable judgment that the Bond Insurance Policy is not valid and binding on the Bond Insurer or (b) a period of two years elapses since the commencement of the suspension under the applicable Standby Bond Purchase Agreement, then the obligation of the Bank under such Standby Bond Purchase Agreement will immediately terminate and the Bank will be under no further obligation to purchase the related Multi-Modal Bonds (a “7.1(b) Final Suspension Event”). With respect to a Default specified in paragraph (c)(i) above, if such Default becomes an Event of Default, then the obligation of the Bank under the applicable Standby Bond Purchase Agreement will immediately terminate and the Bank will be under no further obligation to purchase the related Multi-Modal Bonds (together with a 7.1(b) Final Suspension Event, a “Final Suspension Event”). If with respect to an Event of Default under paragraph (b) above a court with jurisdiction to rule on the validity of the Bond Insurance Policy finds or rules that the Bond Insurance Policy is valid and binding on the Bond Insurer or if the proceeding triggering an Event of Default under paragraph (c)(i) above is terminated on or prior to the end of the 60-day period, then upon such ruling or termination, as applicable, the Bank’s obligation under the applicable Standby Bond Purchase Agreement will be automatically reinstated and the terms of such Standby Bond Purchase Agreement will continue in full force and effect as if there had been no such suspension.

(b) In the case of an Automatic Termination Event (described in paragraphs (a), (c)(ii) and (c)(iii) under “Events of Default” above), the Available Commitment and the obligation of the Bank to advance funds for the purchase of Eligible Bonds will immediately terminate without notice or demand to any Person, and thereafter the Bank will be under no obligation to advance funds for the purchase of the applicable Multi-Modal Bonds. Promptly after the occurrence of an Automatic Termination Event, the Bank will give written notice of same to the Trustee, the Bond Insurer, the Commission, and the applicable Remarketing Agent; provided, that the Bank will incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure will in no way affect the termination of the Bank’s Available Commitment and of its obligation to advance funds for the purchase of Multi-Modal Bonds pursuant to the applicable Standby Bond Purchase Agreement.

(c) In the case of an Event of Default specified in paragraph (e) above or an Insurer Adverse Change, the Bank may terminate its obligation to advance funds for the purchase of Eligible Bonds by giving written notice (a “Notice of Termination”) to the Commission, the Trustee, the applicable Remarketing Agent and the Bond Insurer, specifying the date on which the Available Commitment and the obligation of the Bank to advance funds for the purchase of Eligible Bonds will terminate (the “Noticed Termination Date”), which will be not less than twenty-five (25) days from the date of receipt of such notice by the Trustee and, on and after the Noticed Termination Date the

Bank will be under no further obligation to purchase Multi-Modal Bonds under the applicable Standby Bond Purchase Agreement other than the applicable Multi-Modal Bonds which are the subject of the mandatory tender pursuant to the Indenture, which the Bank will be required to purchase on or prior to the Noticed Termination Date.

(d) In addition to the rights and remedies set forth above, upon the occurrence of any Event of Default, the Bank will have all the rights and remedies available to it under the applicable Standby Bond Purchase Agreement, the applicable Related Documents or otherwise pursuant to law or equity, provided, however, that the Bank will not have the right to terminate its obligation to purchase the related Multi-Modal Bonds, to declare any amount due under such Standby Bond Purchase Agreement due and payable, or to accelerate the maturity date of any such Multi-Modal Bonds except as described above. Without limiting the generality of the foregoing, the Bank has agreed that, so long as no Automatic Suspension Event or Automatic Termination Event has occurred, to purchase Multi-Modal Bonds on the terms and conditions of the applicable Standby Bond Purchase Agreement notwithstanding the institution or pendency of any bankruptcy, insolvency or similar proceeding with respect to the Commission. The Bank will not assert as a defense to its obligation to purchase Multi-Modal Bonds under the applicable Standby Bond Purchase Agreement (i) the institution or pendency of a bankruptcy, insolvency or similar proceeding with respect to the Commission or (ii) a determination by a court of competent jurisdiction in a bankruptcy, insolvency or similar proceeding with respect to the Commission that such Standby Bond Purchase Agreement is not enforceable against the Commission under applicable bankruptcy, insolvency or similar laws.

**Waiver of Bank Defaults.** If an event of default under the applicable Liquidity Facility has been caused by the Bank, the Trustee shall obtain from the Bank written notice of full reinstatement of the applicable Liquidity Facility and rescission of the notice of non-reinstatement as a condition of waiving any such event of default.

#### **Extension, Reduction, Adjustment or Termination of the Standby Bond Purchase Agreements**

Upon any redemption, repayment or other payment of all or any portion of the principal amount of a Series of Multi-Modal Bonds in a Daily Rate Period, a Weekly Rate Period or a Monthly Rate Period, the Bank's purchase commitment under the applicable Standby Bond Purchase Agreement with respect to principal of such Series of Multi-Modal Bonds shall automatically be reduced by the principal amount of such Series of Multi-Modal Bonds so redeemed, repaid or otherwise paid, as the case may be.

The renewal or extension of a Standby Bond Purchase Agreement is subject to agreement by the Bank and the Commission. The Bank has no obligation to extend or renew a Standby Bond Purchase Agreement beyond its initial term. The Commission has the right under certain circumstances to terminate each Standby Bond Purchase Agreement.

#### **Substitute Standby Bond Purchase Agreements**

The Indenture provides that, with the approval of the Bond Insurer, a Substitute Standby Bond Purchase Agreement may be substituted for an existing Standby Bond Purchase Agreement. Each applicable Series of Multi-Modal Bonds is subject to mandatory tender for purchase on the date of delivery of a related Substitute Standby Bond Purchase Agreement. Notice of any such mandatory tender shall be given by the Trustee by registered or certified mail, mailed to the Holder of each affected Multi-Modal Bond not less than 15 days prior to the mandatory purchase. See "DESCRIPTION OF THE 2006 BONDS – Multi-Modal Bonds – Tenders and Purchase of Multi-Modal Bonds."

If at any time the long-term ratings for the debt obligations of the Bank providing the then effective Standby Bond Purchase Agreement drop below "AA-" (in the case of a rating assigned by Standard & Poor's) or "Aa3" (in the case of a rating assigned by Moody's), the Commission will, if requested in writing to do so by the Bond Insurer, with a copy to the Trustee, and within sixty (60) days of its receipt of such request in writing, replace such then effective Standby Bond Purchase Agreement with a Substitute Standby Bond Purchase Agreement acceptable to and approved by the Bond Insurer and in compliance with the applicable requirements of the Indenture.

### **INTEREST RATE SWAP AGREEMENTS**

The Commission has adopted an Interest Rate Swap Policy ("Policy") 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. The Commission may change the Policy in its sole discretion.

The 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. Key elements of the Policy include the following:

Swap Counterparties - 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.

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.

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 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 Bond Counsel regarding the legal requirements associated with making the payments under the Swap on a parity or non-parity basis with outstanding Commission debt.

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.

Annual Swap Report. The Commission’s Director of Treasury Management, in consultation with the Commission’s Financial Advisor, Swap Advisor and Bond 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 based upon criteria set forth in the Policy.

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 or other applicable regulatory agencies.

The Commission will be entering into a fixed interest to floating rate swap agreement (the “2006A Swap Agreement”), with respect to the 2006A Bonds, which will constitute a Parity Swap Agreement under the Indenture permitting regularly scheduled periodic payments due from the Commission thereunder to be secured on a parity basis with the Bonds. The obligation to make any payment upon termination of the 2006A Swap Agreement also will be secured on a parity with the Bonds. The 2006A Swap Agreement will be in a notional amount equal to the principal amount of the 2006A Bonds and will be for the same term as the term of the 2006A Bonds. The counterparty for the 2006A Swap Agreement is Citibank, N. A. New York. The 2006A Swap Agreement requires, under certain circumstances, the consents of Ambac and the counterparty to certain amendments, supplements, modifications and waivers of Indenture provisions.

In addition to the 2006A Swap Agreement, the Commission has amended three variable rate to fixed rate swap agreements entered into in 2004 (the “2004 Forward Swaps”) that were to be effective with respect to Bonds to be issued by June 1, 2006. Under the terms of the amendment, the 2004 Forward Swaps will now apply to a portion of the Bonds to be issued by June 1, 2008, the notional amount will be increased to \$300 million and the amortization schedule for the swaps will be extended. The amendment of the 2004 Forward Swaps resulted in the Commission incurring an inherent termination liability that will be satisfied through an adjustment to the rate on the 2004 Forward Swaps that will be payable commencing at the time of the issuance of the associated Bonds in 2008.



The Commission has several other interest rate exchange agreements with respect to other series of the Bonds as well as with respect to certain series of its Registration Fee Revenue Bonds and Oil Franchise Tax Revenue Bonds. See APPENDIX A – AUDITED FINANCIAL STATEMENTS: 2005 AND 2004.

There are a number of risks associated with Swaps that could affect the value of the Swaps, the ability of the Commission to accomplish its objectives in entering into the Swaps and the ability of the Commission to meet its obligations under the Swaps and with respect to the Bonds. These risks include, among others, the following: counterparty risk – the failure of the counterparty to make required payments; credit risk – the occurrence of an event modifying the credit rating of the Commission or its counterparty; termination risk – the need to terminate the transaction in a market that dictates a termination payment by the Commission; tax risk – the risk created by potential tax events that could affect Swap payments; and basis risk – the mismatch between actual variable rate debt service and variable rate indices used to determine Swap payments. The Commission actively monitors the degree of risk and exposure associated with the Swaps to which it is a party but can offer no assurances that compliance with its policy will prevent the Commission from suffering adverse financial consequences as a result of these transactions.

## **THE COMMISSION**

The Commission is an instrumentality of the Commonwealth created by the Enabling Acts, with power to construct, operate and maintain the System. Its composition, powers, duties, functions, duration and all other attributes are derived from the Enabling Acts as amended and supplemented by subsequent legislation. The Enabling Acts may be modified, suspended, extended or terminated at any time by further legislation.

The Commission is required to be composed of five members, one of whom, Allen D. Biehler, is the Secretary of the Pennsylvania Department of Transportation serving as an ex-officio member. Any vacancy in the membership of the Commission (other than the Secretary of Transportation) shall be filled by appointment of the Governor by and with the advice and consent of two-thirds of the members of the Pennsylvania Senate.

The present members of the Commission and the dates on which their respective terms expire are as follows:

<b>Name</b>	<b>Position</b>	<b>Expiration of Term*</b>
Mitchell Rubin	Chairman	June 25, 2006
Timothy J. Carson	Vice Chairman	February 8, 2009
J. William Lincoln	Secretary/Treasurer	May 18, 2008
Pasquale T. Deon, Sr.	Commissioner	June 25, 2006
Allen D. Biehler	Commissioner	Ex-Officio

Act 61 expanded the scope of and modified the earlier legislation and granted additional powers to the Commission. It authorized and empowered the Commission to undertake the Capital Improvement Program (hereinafter defined) as well as other construction projects. It further authorized the Commission to issue, by resolution, Turnpike Revenue Bonds for the purpose of paying the costs of such turnpike projects. Act 26 made certain changes to Act 61 by shifting the priority of certain Act 61 projects and by adding provisions regarding certain new projects. Act 26 also authorizes, after certain approvals, the conversion of certain portions of the interstate system to toll roads, if necessary.

The Enabling Acts provide that the Commission shall not be required to pay any taxes or assessments on any property acquired or used by it. It also provides that Turnpike Revenue Bonds issued by the Commission shall not be deemed to be a debt of the Commonwealth or a pledge of the faith and credit of the Commonwealth and that the Commonwealth is not obligated to levy or pledge any form of taxation or make any appropriation for the payment of such bonds. The Commission has no taxing power.

### **Executive Personnel**

Joseph G. Brimmeier has been the Chief Executive Officer since February 2003. Prior to that time, he served as Chief of Staff to former U.S. Representative Ron Klink.

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\* Or until their successors are appointed and qualified but not later than 90 days after expiration of the stated term, whichever period is shorter.

Kevin F. Longenbach, Esq., has been the Chief Operating Officer since February 2003. Prior to that time, from 1981 to February 2003, he served in executive management positions with the Commission, most recently for ten years as its Deputy Chief Counsel.

J. Blair Fishburn is the Chief Financial Officer and had been the Deputy Executive Director of Finance and Administration beginning in February 1997. Prior to that time, from 1996 to 1997, he was a financial consultant for AMP Inc. and, from 1976 to 1996, he was with IBM Corporation.

Alexander R. Jansen is the Chief Engineer and had been the Deputy Executive Director of Engineering and Maintenance beginning July 1997. Prior to that time, from 1991 to 1997, he was Commander and Division Engineer for the United States Army Corps of Engineers and, from 1988 to 1991, he was Chief of NATO Infrastructure, Supreme Headquarters Allied Powers of Europe.

Doreen A. McCall, Esq., has been the Chief Counsel since July 2005. Prior to that time, she served as Chief Counsel to the Pennsylvania Historical and Museum Commission from February 2003 to July 2005 and a Deputy General Counsel in the Governor's Office of General Counsel from April 2000 to January 2003. From September 1996 to April 2000, she was an Assistant General Counsel and from November 1993 to August 1996, she was a staff attorney in the Office of Inspector General.

## **THE PENNSYLVANIA TURNPIKE**

### **General**

The present Pennsylvania Turnpike System is composed of a 359 mile Turnpike Mainline traversing the southern portion of Pennsylvania from east to west and a 110 mile north-south section identified as the Northeast Extension. A north-south connection, known as the Beaver Valley Expressway, is approximately 16 miles in length and intersects the Turnpike Mainline in the southwestern portion of the Commonwealth. The Amos K. Hutchinson Bypass is approximately 13 miles in length and adjoins the Turnpike Mainline near the New Stanton Interchange. In addition, a 23-mile section of the Mon/Fayette Project and an eight mile section from the Pennsylvania/West Virginia border to Fairchance, which is located just south of Uniontown, are open as part of the Pennsylvania Turnpike System. When, completed, the Mon/Fayette Expressway will extend approximately 65 miles from Interstate Route 68 in West Virginia to Interstate Route 376 near Pittsburgh.

The Turnpike Mainline connects with the Ohio Turnpike at its western terminus and with the New Jersey Turnpike at its eastern terminus. The Turnpike Mainline commences on the eastern boundary of Pennsylvania at the Delaware River Bridge which connects the Pennsylvania Turnpike System to the New Jersey Turnpike. The Turnpike Mainline traverses the state in a westerly direction generally paralleling the southern border of the state immediately north of Philadelphia and south of Harrisburg to the vicinity of Somerset. West of Somerset, the highway follows a northwesterly direction to the northeast of Pittsburgh and to the Ohio state line, south of Youngstown, Ohio.

The Pennsylvania Turnpike was constructed prior to development of the National Interstate Highway System but portions have been designated as Interstate Routes. However, no Federal Highway Trust Fund monies have been utilized in the construction of the Turnpike Mainline, Northeast Extension, Beaver Valley Expressway or Amos K. Hutchinson Bypass section of the Turnpike. The Turnpike Mainline has been designated as Interstate Route 276 between the area where Interstate Route 95 crosses the Pennsylvania Turnpike System and the Valley Forge Interchange. The portion of the Turnpike Mainline west of the Valley Forge Interchange to the western terminus at the Ohio state line has been designated as Interstate Route 76. In addition, the Turnpike Mainline between the New Stanton and Breezewood Interchanges has been designated as Interstate Route 70. The Northeast Extension has been designated as Interstate Route 476.

The Pennsylvania Turnpike System was constructed and opened to traffic in sections. The original Turnpike Mainline segment between Irwin and Carlisle was opened in 1940. Ten years later, in 1950 the 100-mile section between Carlisle and King of Prussia, was completed and opened. After 1950, construction of new segments of the Pennsylvania Turnpike System occurred at more frequent intervals with the Turnpike Mainline segment in service as of May, 1956. The initial segment of the Northeast Extension between the Turnpike Mainline and the temporary interchange just south of the Lehigh Tunnel was opened in 1955. The final segment, from such interchange to Scranton, was completed and opened for traffic in November, 1957.

The Delaware River Bridge which connects the Turnpike Mainline with the New Jersey Turnpike System is owned jointly by The Pennsylvania Turnpike Commission and the New Jersey Turnpike Authority.

## **Interchanges and Service Areas**

The Pennsylvania Turnpike System has a total of 57 interchanges which connect it with major arteries and population centers in its 531 mile traffic corridor. Thirty of the interchanges are located on the Turnpike Mainline, including Turnpike Mainline barriers at the New Jersey and Ohio state lines, and ten interchanges are situated on the Northeast Extension. The additional seventeen interchanges are located on the three extensions previously noted. There are twenty-one service plazas along the Pennsylvania Turnpike System providing gasoline and diesel fuel, other automotive supplies and services and restaurant services. The Pennsylvania Turnpike is currently in the process of a Service Plaza Development Project with HMS Host and Sunoco to design, construct, finance, operate and maintain new Service Plazas throughout the System.

## **Toll Schedule and Rates**

The current System generally employs a closed or ticket system method for toll collection. Tolls are determined on the basis of the length of the trip and vehicle class. There are nine vehicle classes determined either by axles or, in the case of commercial vehicles, by axles and weight. Historically, all drivers were issued a ticket upon entering the System and were required to surrender the ticket and pay the appropriate toll upon exiting. Electronic toll collection methods, however, have been implemented on the mainline portion of the System and are expected to be implemented in the entire System within the next two years. See "THE PENNSYLVANIA TURNPIKE – E-ZPass."

Since 1957, the Commission has implemented only five revisions in its toll schedule, effective on September 1, 1969, August 1, 1978, January 2, 1987, June 1, 1991 and August 1, 2004. On August 1, 2004, Turnpike tolls increased by 1.8 cents per mile for passenger vehicles from 4.1 to 5.9 cents per mile. Commercial vehicles had an average increase of 5.3 cents per mile. This toll increase is consistent with the rate of inflation over the 13 years since the Commission's prior toll increase in 1991. All revenue generated by this toll increase will be used to fund capital improvements to the Turnpike's roads, tunnels and other system upgrades.

The following Table I illustrates the current tolls and per mile rates applicable to each vehicle class for a trip on the Mainline Section from Interchange 1 through Interchange 358.

**TABLE I**  
**Current Tolls and Per Mile Rates for a Mainline**  
**Roadway East - West Complete Trip**  
**(Delaware River Bridge - Gateway Barrier/Ohio Border)**

<b>Vehicle Toll Class</b>	<b>Gross Vehicle Weight (Thousand Pound)</b>	<b>Current Toll</b>	<b>Per Mile Rate</b>
1	1-7	\$21.25	\$0.059
2	7-15	31.25	0.087
3	15-19	39.00	0.108
4	19-30	45.25	0.126
5	30-45	63.75	0.177
6	45-62	80.75	0.224
7	62-80	115.25	0.320
8	80-100	150.75	0.419
9	Over 100	861.00	2.392

Note: A complete roadway East/West "complete trip" toll cost is the sum of the ticket system toll rate between Warrendale (#30) and the Delaware River Bridge (#359) interchanges plus the Gateway Barrier toll rate.

## **Five-Year Financial History**

The following tables II and III summarize the financial history of the System for the five fiscal years from 2001 to 2005. The financial statements are a combination of cash basis financial statements with certain accruals included. Tables II and III should be read in conjunction with the financial statements prepared in accordance with

generally accepted accounting principles and related notes included in APPENDIX A, AUDITED 2005 AND 2004 FINANCIAL STATEMENTS.

**TABLE II**  
**Number of Vehicles and Fare Revenues - Summarized by Fare Classification**  
(000's Omitted)

Year Ended May 31:	Number of Vehicles			Fare Revenues				Net Fare Revenues
	Passenger	Commercial	Total	Passenger	Commercial	Total	Discounts*	
2001	140,777	22,588	163,365	\$200,105	\$178,469	\$378,574	\$12,674	\$365,900
2002	150,496	22,298	172,794	\$212,650	\$175,591	\$388,241	\$12,490	\$375,751
2003	156,220	23,179	179,399	\$219,201	\$180,300	\$399,501	\$12,279	\$387,222
2004	163,612	24,407	188,019	\$228,515	\$191,801	\$420,316	\$11,572	\$408,744
2005	160,704	25,072	185,776	\$302,738	\$258,391	\$561,129	\$15,971	\$545,158

\* Discounts are provided to certain commercial customers based upon frequency or volume of use.

**TABLE III**  
**Summary of System Revenues and Operating Expenditures Before Interest and Other Charges <sup>(1)</sup>**  
(000's Omitted)  
Years Ended May 31

	2001	2002	2003	2004	2005
<b>Revenues</b>					
Net Toll Revenues	\$365,900	\$375,751	\$387,222	\$408,744	\$545,158
Concession Revenues	10,019	10,221	10,343	10,793	10,923
Interest Income	15,006	17,243	6,162	5,667	7,139
Miscellaneous	<u>2,453</u>	<u>3,159</u>	<u>10,626</u>	<u>8,241</u>	<u>15,393</u>
<b>Total Revenues</b>	<b>\$393,378</b>	<b>\$406,374</b>	<b>\$414,353</b>	<b>\$433,445</b>	<b>\$578,613</b>
<b>Operating Expenditures</b>					
Turnpike Patrol	\$19,884	\$22,179	\$22,952	\$24,648	\$25,278
General & Administrative	13,458	14,339	15,473	14,677	15,247
Normal Maintenance	45,879	42,835	52,820	52,368	51,226
Fare Collection	55,981	54,669	57,188	55,266	54,681
Traffic Services, Safety & Communications	<u>46,196</u>	<u>53,437</u>	<u>51,096</u>	<u>62,688</u>	<u>72,336</u>
<b>Total Operating Expenditures</b>	<b>\$181,398</b>	<b>\$187,459</b>	<b>\$199,529</b>	<b>\$209,647</b>	<b>\$218,768</b>
Revenues less Operating Expenditures	\$211,980	\$218,915	\$214,824	\$223,798	\$359,845
Annual Debt Service Requirement	\$88,245	\$94,170	\$87,369	\$83,350	\$88,112
Coverage Ratio	2.40	2.32	2.46	2.69	4.08
Transfer to the Reserve Maintenance Fund	\$145,500	\$155,000	\$115,000	\$132,000	\$245,000

(1) This summary of revenues and operating expenditures is not intended to present results of operations in conformity with generally accepted accounting principles.

## Budget Process

The Commission's Financial Planning and Analysis Department develops preliminary budget information for all Commission departments. This information is provided to each of the respective departments for their review and to enable them to make any proposed revisions for their budget requests. The information is then returned to the Financial Planning and Analysis Department and a Commission-wide preliminary budget is prepared. This budget is reviewed by senior management and, in cooperation with the respective departments, revisions are made when necessary to conform to the annual financial plan. The final recommended budget is then presented to the Commission for formal approval.

## **Financial Policies and Guidelines**

The Commission originally adopted its first Investment Policy and Guideline for the investment of cash assets on June 6, 1997. The Commission approved an amendment to the Investment Policy effective November 7, 2002 that permitted the use of additional types of eligible securities consistent with the Amended and Restated Trust Indenture entered into in 2001. The policy statements set forth the purpose, objectives, and guidelines for eligible securities, performance benchmarks, periodic reviews and amendments with respect to investments.

The Commission adopted three Financial Policies on April 20, 2004: a Debt Management Policy, an Interest Rate Swap Management Policy and a Liquidity Standard Policy. These financial management policies were developed in recognition of the increasing financial sophistication of the Commission with respect to its debt structure and to provide guidance governing the issuance, management, on-going evaluation and reporting of all debt obligations.

## **E-ZPass High Speed Lanes**

The Commission has installed E-ZPass, a form of electronic toll collection throughout the System for passenger and commercial vehicles that allows drivers to pay tolls utilizing an electronic transponder (tag) on their vehicles. Not only has E-ZPass enhanced safety and convenience for users of the System, the technology has improved traffic flow and reduced congestion at the System's busiest interchanges, especially in southeastern Pennsylvania. In addition, E-ZPass customers traveling or commuting to at least eleven other states that have implemented E-ZPass technology are able to enjoy the convenience and efficiency of seamless E-ZPass travel. The installation by the Commission of the E-ZPass system is being done in phases that continue to be completed on schedule. The Commission has not experienced material problems in connection with the installation or operation of the E-ZPass system.

To help ensure, protect and preserve the collection of toll revenue due to the Commission, a violation enforcement system (VES) has been installed at all interchanges where E-ZPass has been installed to identify violators (customers who travel through E-ZPass lanes and do not have E-ZPass) and motorists with problem tags that result in no reads. VES enables the Commission to collect appropriate tolls and other additional fees relating to the evasion of fares through E-ZPass lanes and other causes of non-payment.

The Commission's annual revenues from E-ZPass drivers increased to \$242,946,362 during the fiscal year ended May 31, 2005 from \$81,886,559 during the fiscal year ended May 31, 2003. The Commission's annual revenues from ticketed drivers (i.e. those not using E-ZPass) decreased to \$300,800,037 from \$304,603,423 during the same period. The Commission expects that E-ZPass usage will continue to grow significantly.

The Commission is a member of the E-ZPass Interagency Group (IAG), a coalition of toll authorities throughout the United States. The Interagency Group includes the following agencies: Peace Bridge Authority; Burlington County Bridge Commission; Chicago Skyway; Delaware Department of Transportation; Delaware River and Bay Authority; Delaware River Joint Toll Bridge Commission; Delaware River Port Authority; Illinois State Toll Highway Authority; Maine Turnpike Authority; Maryland Transportation Authority; Massachusetts Turnpike Authority; Massachusetts Port Authority; Metropolitan Transportation Authority Bridges & Tunnels; New Hampshire Department of Transportation, Bureau of Turnpikes; New Jersey Turnpike Authority; New York State Bridge Authority; New York State Thruway Authority; Port Authority of New York and New Jersey; South Jersey Transportation Authority; Virginia Department of Transportation; and West Virginia Parkways Authority.

New highway construction projects, such as the Mon/Fayette Expressway and Southern Beltway, are being designed and built to be compatible with the introduction of the E-ZPass system. The installation of the E-ZPass system has required the incorporation of innovative technologies into a single toll system that uses hardware and software adaptable to future technologies. The Commission has a contract, extending through July 2007, with TransCore Company for the design, installation and maintenance of the E-ZPass system software and hardware and the operation of the E-ZPass Customer Service and Violations Processing Centers. The E-ZPass system implementation is a major component of the Commission's Ten-Year Capital Plan. E-ZPass will be available on the A. K. Hutchinson Bypass and Beaver Valley Expressway this summer and on the Findlay Connector this fall.

## **Slip Ramps**

The Commission has constructed an alternative interchange (a "Slip Ramp") near the Fort Washington Interchange. Such unmanned ramps, designed for the exclusive use of E-ZPass customers, are expected to reduce congestion at the Turnpike's busier interchanges and similarly are expected to provide better access to industrial parks

and job centers. The Commission is considering the construction of slip ramps in other growing areas as well. Currently, a slip ramp at Route 29 in Chester County, near the Great Valley Corporate Center, is in final design. Another, a slip ramp at Route 903 in Carbon County, is in preliminary design.

### **Personnel and Labor Relations**

As of May 5, 2006, the Commission employed 2,256 persons, consisting of 482 management employees, 1,774 union members, and 145 temporary employees. Seventy-seven (77%) of all employees are engaged in maintenance operations and fare collection. The civil service requirements applicable to the state government do not apply to employees of the Commission

The Commission is a party to three collective bargaining agreements and one memorandum of understanding with Teamsters' Local Unions covering central office, field, and first level supervisory personnel. The three collective bargaining agreements will expire on September 30, 2007. The memorandum of understanding has no termination date. Since union representation began, the Commission has experience one work stoppage which occurred on November 24, 2004 and lasted for 7 days.

### **Retirement Plan**

Substantially all employees of the Commission are covered by the State Employee's Retirement System of the Commonwealth. The costs of the contributory plan are paid by the Commission quarterly based upon a stipulated contribution rate. Participating agency contributions, including those for the Commission, are mandated by statute and are based upon an actuarially determined percentage of gross pay that is necessary to provide the State Employee's Retirement System with assets sufficient to meet the benefits to be paid to the State Employee's Retirement System members. Retirement plan contributions, which are treated as an operating expense of the System, total \$1,384,610 for Fiscal Year 2005 with a contribution rate of 1.43% for Class "AA" and 1.15% for Class "A" employees from July 2004, to May 2005. The rate for June 2004 was 0.50% for Class "AA" and 0.41% for Class "A" employees. The Commission's contribution rate for Fiscal Year ending May 31, 2006 is 2.37% for Class "AA" employees and 1.9% for Class "A" employees. The current rate was effective July 1, 2005.

### **Other Post Employment Benefit Liabilities**

Historically, the Commission has been funding its post-employment benefit liabilities on a pay-as-you-go basis. In accordance with the pronouncements of the Governmental Accounting Standards Board applicable to the Commission, the Commission will begin reporting its unfunded actuarial accrued liabilities for health care and other non-pension post-employment benefits ("OPEB") and its annual OPEB cost each year commencing with its audited financial statements for the fiscal year ending May 31, 2008. The Commission has engaged an outside consultant to prepare an actuarial report valuing the Commission's OPEB liability. As of the date of this Official Statement, the report has not been completed. Preliminary information indicates that the Commission's unfunded actuarial accrued OPEB liability will be approximately \$167.7 million using an 8% discount rate and assuming that the annual required contribution would be invested in an irrevocable separate trust account. The Commission's annual required contribution would be determined biannually on the basis of a thirty year amortization of its actuarial accrued OPEB liability. This number is not fixed and will vary from year to year.

### **New and Pending Legislation**

In the past, bills have been introduced in the Pennsylvania legislature that would impose legislative oversight on certain Commission actions, including increases in the Tolls on the System. Legislation has also been introduced addressing privatization as a means to finance future capital costs. The Commission is unaware of any legislation pending in the Pennsylvania legislature that is slated for imminent action. No assurance can be given as to the likelihood of action on any pending legislation. Similarly, no assurance can be given that bills attempting to affect the operation or administration of the Commission will not be introduced in the future.

## **CAPITAL IMPROVEMENT PROGRAM**

### **Act 61 Projects**

In 1985, the General Assembly of the Commonwealth enacted Act 61 that, among other things, authorized and empowered the Commission to undertake the construction of new projects and to operate them as part of the System.

## **Mon/Fayette Expressway and Southern Beltway**

Three projects constructed as part of the Mon/Fayette Expressway are in operation. One is a six-mile toll road between Interstate Route 70 and U.S. Route 40 in Washington County. This project was built by Penn DOT and turned over to the Commission upon its opening in 1990. The second is an eight-mile section of toll road from the Pennsylvania /West Virginia border to Fairchance, which is located just south of Uniontown. The other is a 17 mile section of the Mon/Fayette Expressway from Interstate Route 70 in Washington County to Pennsylvania Route 51 in Allegheny County. These are now part of the System. When completed, the Mon/Fayette Expressway will extend from Interstate Route 68 in West Virginia to Interstate Route 376 near Pittsburgh, a distance of approximately 65 miles.

Two other projects will complete the entire Mon/Fayette Expressway. A 15 mile section, extending from Uniontown to Brownsville, has received environmental clearance and final engineering design and right-of-way acquisition is now underway. Construction bids for approximately 8 miles of the 15 mile Uniontown to Brownsville Project were received in the first half of 2006. Construction is now underway on this 8 mile section with an opening scheduled for 2009, the remainder of the 15 miles will not move to construction until additional funding is identified. A 24 mile section, extending from Pennsylvania Route 51 to Interstate Route 376 in Pittsburgh, received environmental clearance in December 2004. Final design is currently underway and Right-of-Way acquisition is scheduled to begin no earlier than 2007. Construction will begin no earlier than 2009.

The proposed Southern Beltway is to be constructed from the Mon/Fayette Expressway, near Finleyville, extending as part of a beltway south of Pittsburgh to Pennsylvania Route 60 at the Pittsburgh International Airport. It is presently planned for construction in three sections. Two of these sections are now in the environmental study phase. The remaining section, from U.S. 22 to PA 60, is currently under construction and is expected to be opened to traffic in late 2006.

The proceeds of the Commission's Oil Franchise Tax Bonds, Series A and B of 1998 and Series A, B and C of 2003, and the Commission's Registration Fee Revenue Bonds, Series of 2001 and Series of 2005 have been applied to fund construction of the Mon/Fayette and Southern Beltway projects. It is anticipated that the remaining costs to complete the Mon/Fayette Expressway and the Southern Beltway will be financed with Oil Franchise Tax Revenues and Registration Fee Revenues along with other funding sources. Although the Mon/Fayette Expressway and the Southern Beltway are toll roads, Mainline System Revenues will not be pledged for the financing of their construction.

## **Ten Year Capital Plan**

The Commission has a Ten Year Capital Plan, consisting of Highway, Information Technology and Infrastructure support programs, which it updates each year. The current Ten Year Capital Plan is included below. The Commission anticipates adopting its Fiscal Year 2006-2007 Ten Year Capital Plan shortly. The Highway program consists of roadway, bridge, tunnel, and toll plaza/interchange projects. The Information Technology program consists of toll collection, communication, Intelligent Transportation Systems (ITS) and other electronic information management projects. The Infrastructure Support Program consists of service plaza, facilities and large, heavy or high-value equipment needs.

The highest priority highway project is the ongoing full depth roadway total reconstruction of the east/west Mainline and Northeast Extension, which currently costs \$10,000,000 - \$15,000,000 per mile. This work includes the reconstruction of the roadway, the widening of the median, and the replacement of both mainline and overhead bridges. To date, approximately 48 miles of this project have been completed and approximately 15 miles are currently in construction. The Commission currently plans to spend approximately \$2.3 billion on total reconstruction projects and about \$800 million on various bridge projects over the next ten years.

Other highway projects include the construction of the Susquehanna River Bridge replacement which began in 2005 followed by the replacement of the Lehigh River and Pohopoco River Bridges and the Trout Run Bridge on the North East Extension. The Warrendale and Gateway Toll Plazas are near completion and work is underway for the replacement of the Gettysburg, Harrisburg East, Lebanon/Lancaster and Norristown Toll Plazas.

The Information Technology program includes funding of \$204 million over the next ten years to address the Commission's Information Technology needs including toll collection projects, communication, application development and technical operational needs. One of the primary initiatives of the Information Technology Program is a project to replace the Commission's core financial and administrative systems with an off-the-shelf Enterprise

Resource Planning (ERP) system software package. The Commission has selected SAP to provide the ERP software package. The ERP package will provide a set of integrated business processes supported by multi-module application software with a centralized data repository that will enable the Commission to better manage its business.

The Infrastructure Support Program includes funding of \$89 million over the next ten years to ensure that the Commission is able to replace equipment in a cost effective manner and funding of \$302 million has been programmed to repair and replace the aging facilities of the Commission. This commitment will ensure that adequate equipment and facilities are in good repair to support the maintenance of the Turnpike.



**PENNSYLVANIA TURNPIKE COMMISSION**  
**FISCAL YEAR 2005-2006 TEN YEAR CAPITAL PLAN - ANNUAL PROGRAM DETAIL**  
**(IN MILLIONS OF \$)**

CAPITAL PLAN CATEGORY	# OF PROJECTS	% OF PROJECTS	Current	Priority A Year 2-4			Priority B Year 5-7			Priority C Year 8-10			TOTAL	% OF TOTAL
			FY 2005-2006	FY 2006-2007	FY 2007-2008	FY 2008-2009	FY 2009-2010	FY 2010-2011	FY 2011-2012	FY 2012-2013	FY 2013-2014	FY 2014-2015		
<b>HIGHWAY PROGRAM</b>														
Roadway	87	31%	195.9	221.5	261.3	258.0	275.7	299.5	306.1	317.6	284.1	287.2	\$2,707	64%
Structures	64	22%	105.1	87.7	88.1	84.5	70.0	44.3	15.4	8.4	43.4	43.4	\$590	14%
Tunnels	18	6%	6.8	2.2	3.6	13.2	9.0	18.4	42.0	37.1	32.1	26.5	\$191	4%
Toll Plazas	13	5%	40.7	41.1	10.3	17.2	16.2	8.2	5.5	6.3	8.0	14.5	\$168	4%
<b>TOTAL</b>	<b>182</b>	<b>64%</b>	<b>348.4</b>	<b>352.4</b>	<b>363.3</b>	<b>372.9</b>	<b>370.9</b>	<b>370.4</b>	<b>369.0</b>	<b>369.3</b>	<b>367.6</b>	<b>371.6</b>	<b>\$3,656</b>	<b>86%</b>
<b>INFORMATION TECHNOLOGY PROGRAM</b>														
Toll Collection	9	3%	11.7	15.4	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	\$28	1%
Communications	6	2%	2.2	4.3	3.5	2.7	1.9	1.4	1.4	0.2	0.2	0.2	\$18	0%
Application Development	6	2%	13.9	12.3	12.3	12.3	14.1	14.6	14.6	15.8	15.8	15.8	\$142	3%
Technical Operations	2	1%	2.9	3.0	3.0	2.0	1.0	1.0	1.0	1.0	1.0	1.0	\$17	0%
<b>TOTAL</b>	<b>23</b>	<b>8%</b>	<b>30.7</b>	<b>34.9</b>	<b>19.4</b>	<b>17.0</b>	<b>17.0</b>	<b>17.0</b>	<b>17.0</b>	<b>17.0</b>	<b>17.0</b>	<b>17.0</b>	<b>\$204</b>	<b>5%</b>
<b>INFRASTRUCTURE SUPPORT PROGRAM</b>														
Service Plazas	2	1%	1.1	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	\$2	0%
Facilities	75	26%	32.1	29.5	32.4	30.8	29.1	29.2	28.8	28.9	29.5	29.4	\$300	7%
Equipment(Rolling Stock)	3	1%	12.7	7.9	9.6	4.3	8.0	8.4	10.2	9.8	10.9	7.0	\$89	2%
<b>TOTAL</b>	<b>80</b>	<b>28%</b>	<b>45.9</b>	<b>37.7</b>	<b>42.3</b>	<b>35.1</b>	<b>37.1</b>	<b>37.6</b>	<b>39.0</b>	<b>38.6</b>	<b>40.4</b>	<b>36.4</b>	<b>\$390</b>	<b>9%</b>
<b>TOTAL TURNPIKE NEEDS by YEAR</b>	<b>285</b>	<b>100%</b>	<b>\$425.0</b>	<b>\$425.0</b>	<b>\$425.0</b>	<b>\$425.0</b>	<b>\$425.0</b>	<b>\$425.0</b>	<b>\$425.0</b>	<b>\$424.9</b>	<b>\$425.1</b>	<b>\$425.1</b>	<b>\$4,250</b>	<b>100%</b>

## Capacity Needs Study

As part of the Highway Program's Long Range Plan, the Commission updated its mainline capacity needs analysis. The capacity analysis identified needs through 2025. The analysis identified roadway and other deficiencies projected to occur during this period. The results of this study have been incorporated into the needs portion of the Commission's Ten Year Capital Plan.

## AUDITED FINANCIAL STATEMENTS

The financial statements of the Commission for the years ended May 31, 2005 and May 31, 2004 are set forth in "APPENDIX A - AUDITED FINANCIAL STATEMENTS: 2005 AND 2004" certified by Ernst & Young, in its capacity as Independent Auditor. The Commission has not asked Ernst & Young to perform any additional review in connection with this Official Statement.

## CONTINUING DISCLOSURE

The Commission will enter into a Continuing Disclosure Undertaking for the benefit of the registered owners from time to time of the 2006 Bonds (the "Disclosure Undertaking"). Although the Multi-Modal Bonds may qualify for exemption from the continuing disclosure requirements of United States Securities and Exchange Commission Rule 15c2-12, the Commission's Disclosure Undertaking will include all of the 2006 Bonds.

Pursuant to the Disclosure Undertaking, the Commission will provide to the Repositories and to the appropriate state information depository ("SID"), if any, within 180 days of the end of each fiscal year of the Commission commencing with the fiscal year ending May 31, 2006, annual financial information, consisting of financial and operating data of the type set forth in this Official Statement in Tables I, II and III and in "APPENDIX A - AUDITED FINANCIAL STATEMENTS: 2005 AND 2004." In the event that audited financial statements are not available within 180 days of the close of the applicable fiscal year, the Annual Financial Information will contain unaudited financial statements and the audited financial statements will be provided for filing when available.

The Disclosure Undertaking will also provide that the Commission will file in a timely manner, with the Municipal Securities Rulemaking Board (the "MSRB"), notice of the occurrence of any of the following events with respect to the 2006 Bonds, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the 2006 Bonds; (vii) modifications to rights of holders of the 2006 Bonds; (viii) 2006 Bond calls; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the 2006 Bonds; and (xi) rating changes. The foregoing events are quoted from Rule 15c2-12.

In addition, the Commission shall give notice in a timely manner to the MSRB and a SID, if any, of any failure to provide such annual financial information on or before the date specified for such filing. Also, any filing to be made to a Repository pursuant to the requirements of the Disclosure Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

The Commission may amend the Disclosure Undertaking and waive any of the provisions thereof, but no such amendment or waiver shall be executed and effective unless (i) the amendment or waiver is made in connection with a change in legal requirements, change in law or change in the identity, nature or status of the Commission or the governmental operations conducted by the Commission; (ii) the Disclosure Undertaking, as modified by the amendment or waiver, would have been the written undertaking contemplated by Rule 15c2-12 at the time of original issuance of the 2006 Bonds, taking into account any amendments or interpretations of Rule 15c2-12; and (iii) the amendment or waiver does not materially impair the interests of the registered owners of the 2006 Bonds. Evidence of compliance with the foregoing conditions shall be satisfied by delivery to the Commission of an opinion of counsel having recognized skill and experience in the issuance of municipal securities and federal securities law to the effect that the amendment or waiver satisfies the conditions set forth in the preceding sentence. Notice of any amendment or waiver shall be filed by the Commission with each Repository and the State Information Depository, if any, and shall be sent to the registered owners of the 2006 Bonds.

The Disclosure Undertaking will recite that it is entered into for the benefit of the registered owners from time to time of the 2006 Bonds. For the purposes of the Disclosure Undertaking, for so long as the 2006 Bonds are registered in the name of DTC or its nominee, “registered owner” shall mean and include the holder of a book-entry credit evidencing an interest in the 2006 Bonds. Holders of book-entry credits may file their names and addresses with the Commission for the purposes of receiving notices or giving direction under the Disclosure Undertaking.

A default under the Disclosure Undertaking shall not be deemed to be a default under the 2006 Bonds or the Indenture, and the sole remedy to enforce the provisions of the Disclosure Undertaking shall be the right of any registered owner, by mandamus, suit, action or proceeding at law or in equity, to compel the Commission to perform the provisions and covenants contained in the Disclosure Undertaking.

The Disclosure Undertaking will terminate (1) upon payment or provision for payment in full of the 2006 Bonds, (2) upon repeal or rescission of Section (b)(5) of Rule 15c2-12, or (3) upon a final determination that Section (b)(5) of Rule 15c2-12 is invalid or unenforceable. A copy of the Disclosure Undertaking is on file at the principal office of the Commission.

The Commission has complied with all of its continuing disclosure requirements pursuant to Rule 15c2-12 with respect to its other series of bonds.

## **RELATIONSHIPS OF CERTAIN PARTIES**

Dilworth Paxson LLP, Bond Counsel, and Klett Rooney Lieber & Schorling, A Professional Corporation, Counsel to the Underwriters, have both provided legal services to the Commission in various matters. U.S. Bank National Association, the Trustee, has performed other services for the Commission.

## **UNDERWRITING**

The 2006A Bonds are being purchased by the Underwriters listed on the cover page (the “2006A Underwriters”) for whom Mesirow Financial, Inc., is acting as the Representative. The 2006A Underwriters have agreed to purchase the 2006A Bonds at an aggregate underwriting discount of \$649,082.50.

The 2006B Bonds are being purchased by the PNC Capital Markets, LLC (the “2006B Underwriters”) who has agreed to purchase the 2006B Bonds at an aggregate underwriting discount of \$444,812.50.

The 2006C Bonds are being purchased by the RBC Dain Rauscher Inc., doing business under the trade name RBC Capital Markets (the “2006C Underwriter” and together with the 2006A Underwriters and the 2006B Underwriter, the “Underwriters”), who has agreed to purchase the 2006C Bonds at an aggregate underwriting discount of \$394,812.50.

The Underwriters will be obligated to purchase all of the 2006 Bonds if any of such 2006 Bonds are purchased. The 2006 Bonds may be offered and sold to certain dealers (including the Underwriters and other dealers depositing such 2006 Bonds into investment trusts) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters. The Commission has agreed to be liable to the Underwriters to the extent of all losses, claims, damages and liabilities arising out of incorrect statements or information contained in this Official Statement or material omissions therein, except for information furnished by the Underwriters, and with respect to certain other matters.

## **REMARKETING**

PNC Capital Markets, LLC, has been appointed as exclusive Remarketing Agent for the 2006B Bonds. Subject to certain conditions, upon the delivery or deemed delivery of 2006B Bonds tendered for purchase by any owners thereof in accordance with the provisions of the Supplemental Indenture No. 8, the Remarketing Agent will offer for sale and use its best efforts to remarket such tendered 2006B Bonds, any such remarketing to be made on the date such tendered 2006B Bonds are to be purchased, at a price equal to 100% of the principal amount thereof plus accrued interest, if any. The Remarketing Agent may be removed or replaced by the Commission and the Remarketing Agent may also resign in accordance with the provisions of the Supplemental Indenture No. 8.

RBC Dain Rauscher Inc., doing business under the trade name RBC Capital Markets, has been appointed as exclusive Remarketing Agent for the 2006C Bonds. Subject to certain conditions, upon the delivery or deemed delivery of 2006C Bonds tendered for purchase by any owners thereof in accordance with

the provisions of the Supplemental Indenture No. 8, the Remarketing Agent will offer for sale and use its best efforts to remarket such tendered 2006C Bonds, any such remarketing to be made on the date such tendered 2006C Bonds are to be purchased, at a price equal to 100% of the principal amount thereof plus accrued interest, if any. The Remarketing Agent may be removed or replaced by the Commission and the Remarketing Agent may also resign in accordance with the provisions of the Supplemental Indenture No. 8.

## **RATINGS**

Standard & Poor's Rating Group, Moody's Investors Service and FitchRatings are expected to assign their municipal bond ratings of "AAA", "Aaa," and "AAA" respectively, to the 2006 Bonds, with the understanding that upon delivery of the 2006 Bonds, a policy insuring the payment when due of the principal of and interest on the 2006 Bonds will be issued by Bond Insurer.

Standard & Poor's Rating Group, Moody's Investors Service and FitchRatings are expected to assign their short term ratings of "A-1+," "VMIG 1," and "F1+" respectively, to the Multi-Modal Bonds, with the understanding that upon delivery of the Multi-Modal Bonds, (i) the Standby Bond Purchase Agreements supporting the payment of the tender purchase price of the Multi-Modal Bonds will be executed and delivered by the Bank and (ii) the Bond Insurance Policy will be delivered by the Bond Insurer to the Trustee.

The Commission has received underlying ratings of "AA-", "Aa3," and "AA-" respectively, from Standard & Poor's Rating Group, Moody's Investors Service and FitchRatings for the 2006 Bonds.

An explanation of the significance of each of such ratings may be obtained from the rating agency furnishing the same at the following addresses: Standard & Poor's Rating Group, 25 Broadway, New York, NY 10004, Moody's Investors Service, 99 Church Street, New York, NY 10007, and FitchRatings, One State Street Plaza, New York, NY 10004. There is no assurance that such ratings will continue for any given period of time or that they may not be lowered or withdrawn entirely by the rating agencies, or any of them, if, in their or its judgment, circumstances so warrant. Any such downward change in or withdrawal of such ratings, or any of them, may have an adverse effect on the market price of the 2006 Bonds.

## **LITIGATION**

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the 2006 Bonds, or in any way contesting or affecting the validity of the 2006 Bonds or any proceedings of the Commission taken with respect to the offer or sale thereof, or the pledge or application of any monies or security provided for the payment of the 2006 Bonds, the existence or powers of the Commission or the construction of the Commission's capital improvement program.

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 any loss are limited to \$250,000 for each person or \$1,000,000 in the aggregate.

There are currently approximately 109 open claims for personal injury and/or property damage pending against the Commission, none of which individually or in the aggregate are deemed to expose the Commission to a material risk of loss.

## **LEGAL MATTERS**

Certain legal matters will be passed upon by Dilworth Paxson LLP, Philadelphia, Pennsylvania, Bond Counsel. A copy of the form of opinion of Bond Counsel which will be delivered with the 2006 Bonds is set forth in "APPENDIX C - FORM OF OPINION OF BOND COUNSEL." Certain other legal matters will be passed upon for the Underwriters by their Counsel, Klett Rooney Lieber & Schorling, A Professional Corporation, Pittsburgh, Pennsylvania, and for the Commission by its Chief Counsel, Doreen A. McCall, Esquire. Certain legal matters will be passed upon by Greenberg Traurig LLP, Philadelphia, Pennsylvania, which is acting as counsel to the Bank.

## **FINANCIAL ADVISOR**

The Commission has retained Hopkins & Company, Philadelphia, Pennsylvania, as Financial Advisor with respect to the authorization and issuance of the 2006 Bonds. The Financial Advisor is not obligated to undertake or assume responsibility for, nor has it undertaken or assumed responsibility for, an independent verification of the accuracy, completeness or fairness of the information contained in this Official Statement.

Hopkins & Company is an independent advisory firm and is not engaged in the business of underwriting, holding or distributing municipal or other public securities.

## **TRUSTEE**

The Commission has appointed U.S. Bank National Association (successor to Wachovia Bank, National Association), Philadelphia, Pennsylvania, as the Trustee and Authenticating Agent under the Indenture. The obligations and duties of the Trustee are as described in the Indenture. The Trustee has not evaluated the risks, benefits or propriety of any investment in the 2006 Bonds, and makes no representation, and has reached no conclusions, regarding the validity of the 2006 Bonds, the security therefor, the adequacy of the provisions for payment thereof or the tax-exempt status of the interest on the 2006 Bonds. The Trustee has relied upon the opinion of Bond Counsel for the validity and tax-exempt status of the interest on the 2006 Bonds as well as other matters set out in that opinion. Furthermore, the Trustee has no oversight responsibility, and is not accountable, for the use or application by the Commission of any of the 2006 Bonds authenticated or delivered pursuant to the Indenture or for the use or application of the proceeds of such 2006 Bonds by the Commission.

Under the terms of the Indenture the Trustee shall not be responsible for any loss or damage resulting from any action or inaction taken in good faith in reliance upon an opinion of counsel and the Trustee is liable only for those damages caused by its gross negligence or willful misconduct. Under the Indenture, the Trustee is not required to take notice, and is not deemed to have notice, of any default under the Indenture, unless the Trustee has been specifically notified in writing of such default by the owners of at least 10% in aggregate principal amount of the Outstanding 2006 Bonds affected by such default. All notices or other instruments required by the Indenture to be delivered to the Trustee must be delivered at the corporate trust office of the Trustee. In the absence of any such notice, the Trustee may conclusively assume no Event of Default (as defined in the Indenture) exists, except as expressly stated in the Indenture. The summary of the Trustee's rights, duties, obligations and immunities is not intended to be a complete summary and reference must be made to the Indenture for a complete statement of the Trustee's rights, duties, obligations and immunities.

## **TAX MATTERS**

### **Federal Tax Exemption**

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the 2006 Bonds will not be includable in the gross income of the holders thereof for federal income tax purposes and will not be a specific preference item for purposes of computing the alternative minimum tax imposed on individuals and corporations. However, interest on the 2006 Bonds paid or accrued during any period any 2006 Bonds are held by a corporation may be subject to alternative minimum tax imposed under the Internal Revenue Code of 1986, as amended (the "Code"), due to the adjustment for adjusted current earnings provided for in the Code. In addition, interest on the 2006 Bonds received or accrued in any taxable year by certain foreign corporations may be included in computing the "dividend equivalent amount" of such corporations subject to the branch profits tax imposed on such corporations under Section 884 of the Code. Further, interest on the 2006 Bonds may be subject to federal income taxation under Section 1375 of the Code for S corporations which have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the Gross Revenues of such S corporations is passive investment income.

Under the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), enacted on May 17, 2006, tax-exempt interest paid after Dec. 31, 2005 is no longer exempt from the interest reporting requirements and must be reported to recipients of such interest on a Form 1099-INT, or similar form, by the payors of such tax-exempt interest.

Ownership of the 2006 Bonds may result in collateral federal income tax consequences to certain taxpayers including, without limitation, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers, including banks, thrift institutions and other financial institutions subject to Section 265 of the Code, who may be deemed to have incurred or continued indebtedness to purchase or to carry the 2006 Bonds. Bond Counsel expresses no opinion as to any such consequences, and prospective purchasers of the 2006 Bonds who may be subject to such collateral consequences should consult their tax advisors.

In rendering this opinion, Bond Counsel has relied on certain of the representations and covenants of the Commission set forth in the Indenture and the Commission's Tax Regulatory Agreement with respect to the 2006 Bonds. Bond Counsel has assumed compliance by the Commission with its covenants to comply with the provisions of the Code relating to actions to be taken by the Commission in respect of the 2006 Bonds after the issuance thereof to the extent necessary to effect or maintain the federal exclusion from gross income of the interest on the 2006 Bonds. These covenants relate to, among other things, the use of and investment of proceeds of the 2006 Bonds and the rebate to the United States Treasury of specified arbitrage earnings, if any. Failure of the Commission to comply with such covenants could result in the interest on the 2006 Bonds becoming subject to federal income tax from the date of issuance.

### **Original Issue Premium**

2006 Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) (the "Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the 2006 Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a purchaser's basis in a Premium Bond and, under Treasury Regulations, the amount of tax exempt interest received will be reduced by the amount of amortizable bond premium properly allocated to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

### **Pennsylvania Tax Exemption**

Bond Counsel's opinion will also state that, under existing law, the 2006 Bonds are exempt from personal property taxes in Pennsylvania, and the interest on the 2006 Bonds is exempt from Pennsylvania personal income tax and corporate net income tax.

## **MISCELLANEOUS**

The financial data and other information contained herein have been obtained from the Commission's records, audited financial statements and other sources which are believed to be reliable. No guarantee is however given that any of the assumptions, forecasts or estimates contained herein will be realized.

The references herein to the Enabling Acts, the 2006 Bonds, the Indenture, Supplemental Indenture No. 8, the Bond Insurance Policy, each Standby Bond Purchase Agreement, the 2006A Swap Agreement and the Continuing Disclosure Undertaking are brief summaries of certain provisions thereof. Such summaries do not purport to be complete and, accordingly, are qualified by reference and are subject to the full texts thereof.

Neither this Official Statement nor any other disclosure in connection with the 2006 Bonds is to be construed as a contract with the holders of the 2006 Bonds. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not expressly so identified, are intended merely as such and not as representations of fact.

## **PENNSYLVANIA TURNPIKE COMMISSION**

By: /s/ Mitchell Rubin

*Chairman*

## **APPENDIX A**

### **AUDITED 2005 AND 2004 FINANCIAL STATEMENTS**

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PENNSYLVANIA TURNPIKE COMMISSION  
A COMPONENT UNIT OF THE COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statements

Years ended May 31, 2005 and 2004 with Report of Independent Auditors

# Pennsylvania Turnpike Commission

## Basic Financial Statements

Years ended May 31, 2005 and 2004

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## Report of Independent Auditors

The Commissioners  
Pennsylvania Turnpike Commission

We have audited the accompanying balance sheets of the Pennsylvania Turnpike Commission a component unit of the Commonwealth of Pennsylvania as of May 31, 2005 and 2004, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Pennsylvania Turnpike Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Commission's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pennsylvania Turnpike Commission as of May 31, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Management's Discussion and Analysis on pages 2 to 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Ernst & Young LLP*

August 5, 2005

Pennsylvania Turnpike Commission  
Management's Discussion and Analysis

May 31, 2005

The management of the Pennsylvania Turnpike Commission (hereinafter referred to as the Commission) offers this narrative overview and analysis of the Commission's financial activities for the year ended May 31, 2005, which should be read in conjunction with the Commission's basic financial statements.

**Overview of the Basic Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. While the Commission is considered a component unit of the Commonwealth of Pennsylvania, it is also an enterprise fund. Therefore, the Commission's financial statements are presented in a manner similar to a private-sector business and have been prepared according to accounting principles generally accepted in the United States (GAAP). All of the current year's revenues are recorded when earned and expenses are recorded as they are incurred, regardless of when the cash is received or disbursed.

The balance sheet presents information on all of the Commission's assets and liabilities, with the difference being reported as net assets. Over time, increases or decreases in net assets serve as a relative indicator of the change in financial position of the Commission.

The statement of revenues, expenses, and changes in net assets shows the result of the Commission's total operations during the fiscal year and reflects both operating and nonoperating activities. Changes in net assets (increases or decreases) reflect the current fiscal period's operating impact upon the overall financial position of the Commission.

The statement of cash flows provides a detailed analysis of all sources and uses of cash. The direct method of cash flows is presented, ending with a reconciliation of operating income to net cash provided by operating activities. The statement of cash flows is divided into the following activities sections—operating, noncapital financing, capital financing, and investing.

Notes to the basic financial statements contain supplemental information, and offer explanations to the basic financial statements. The notes are intended to assist the reader in understanding the Commission's basic financial statements.

The Commission early implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*. As a result of adoption of GASB Statement No. 40, the Commission has expanded cash and investment disclosures in the notes to the financial statements.

Pennsylvania Turnpike Commission  
Management's Discussion and Analysis (continued)

**Financial Analysis**

**Comparative Condensed Balance Sheets**

	2005	May 31 2004	2003
	<i>(In Thousands)</i>		
<b>Assets</b>			
Current assets	\$ 606,900	\$ 323,271	\$ 344,905
Long-term investments	725,414	789,107	665,313
Capital assets, net of accumulated depreciation	2,803,769	2,674,605	2,707,586
Other assets	61,407	62,264	67,158
Total assets	<u>\$ 4,197,490</u>	<u>\$ 3,849,247</u>	<u>\$ 3,784,962</u>
<b>Liabilities and net assets</b>			
Current liabilities	\$ 183,384	\$ 153,053	\$ 149,604
Bonds payable, net of unamortized premium and discount	2,408,199	2,188,756	2,084,936
Other noncurrent liabilities	12,604	13,912	19,049
Total liabilities	<u>2,604,187</u>	<u>2,355,721</u>	<u>2,253,589</u>
Net assets:			
Invested in capital assets, net of related debt	408,557	470,593	612,434
Restricted	1,092,830	934,108	668,759
Unrestricted	91,916	88,825	250,180
Total net assets	<u>1,593,303</u>	<u>1,493,526</u>	<u>1,531,373</u>
Total liabilities and net assets	<u>\$ 4,197,490</u>	<u>\$ 3,849,247</u>	<u>\$ 3,784,962</u>

As noted earlier, net assets serve as an indicator of the Commission's overall financial position. The Commission's net assets were \$1,593,303,000, \$1,493,526,000 and \$1,531,373,000 as of May 31, 2005, 2004 and 2003, respectively. Restricted net assets are reserved for projects defined in trust indentures and applicable bond issue official statements.

# Pennsylvania Turnpike Commission

## Management's Discussion and Analysis (continued)

### Financial Analysis (continued)

Total assets increased by \$348.2 and \$64.3 million in fiscal 2005 and fiscal 2004, respectively. The 2005 increase is mainly in the cash and investment (\$216.8 million) and capital assets (\$129.2 million) classifications and was the result of two events: the issuance of the 2004 Series A Revenue Bonds and the August 1, 2004 toll increase, both events are discussed below. The fiscal 2004 increase was mainly attributable to the issuance of the 2003 Series A, B, and C Oil Company Franchise Tax Revenue Bonds and the partial defeasance of the 1998 Series A and B Oil Company Franchise Tax Revenue Bonds. Fiscal 2004 cash and investments balances were \$90.7 million higher than fiscal 2003 as a result of these events. This increase was partially offset by a \$33.0 million decrease in capital assets.

Total liabilities increased by \$248.5 and \$102.1 million in fiscal 2005 and fiscal 2004, respectively. The fiscal 2005 increase was mostly attributable to the issuance of the 2004 Series A Revenue Bonds, which resulted in a \$230.9 million increase in the bonds and bonds interest payable categories. The fiscal 2004 increase was mostly attributable to the issuance of the 2003 Series A, B, and C Oil Company Franchise Tax Revenue Bonds and the partial defeasance of the 1998 Series A and B Company Franchise Tax Revenue Bonds resulting in a \$103.8 million increase in bonds payable.

### Comparative Statements of Revenues and Expenses

	Year ended May 31		
	2005	2004	2003
	<i>(In Thousands)</i>		
Operating:			
Operating revenues	\$ 571,474	\$ 427,778	\$ 404,756
Cost of services	(270,706)	(237,385)	(234,092)
Depreciation	(211,401)	(229,548)	(229,485)
Operating income (loss)	89,367	(39,155)	(58,821)
Nonoperating revenues (expenses):			
Oil company franchise tax revenues	51,551	47,062	46,288
Federal and state grants and reimbursements	37,647	42,787	35,135
Investment earnings	38,927	30,901	58,704
Other nonoperating revenues	658	1,453	3,692
Interest and bond expense	(118,373)	(120,895)	(105,079)
Nonoperating income	10,410	1,308	38,740
Change in net assets	\$ 99,777	\$ (37,847)	\$ (20,081)

## Pennsylvania Turnpike Commission

### Management's Discussion and Analysis (continued)

#### Financial Analysis (continued)

For fiscal years ending May 31, 2005, 2004 and 2003, operating and nonoperating revenues totaled \$700,257,000, \$549,981,000 and \$548,575,000, respectively, while expenses totaled \$600,480,000, \$587,828,000 and \$568,656,000, respectively.

Total revenues for fiscal 2005 were \$150.3 million higher than prior year with most of the additional revenues coming from a toll increase. On August 1, 2004, the Commission increased its toll rates for the first time in 13 years. The new toll rates were established to match the rate of inflation over the past 13 years with passenger and commercial rates increasing an average of 1.8 and 5.3 cents per mile, respectively. The additional earnings from the new rates will go to capital improvements and reconstruction of the Turnpike and will allow the Commission to double its rate of capital spending over the next 10 years. The toll increase had a favorable impact on the Commission's fiscal 2005 operating results with operating revenues increasing \$143.7 million or 33.6% over the prior year. This increase was mostly related to a \$136.4 million increase in net fare revenue, which exceeded projections by \$46 million. The fiscal 2005 operating revenue increase more than offset the \$33.3 million, or 14.0%, increase in cost of services. The increase in cost of services was related to non-capitalizable projects for maintaining the road and facilities. The net result is a \$128.5 million increase in operating income over prior year.

The increases in operating revenues and cost of services in fiscal 2005 netted to a 58% increase in operating income before depreciation. Although \$335.2 million of capital assets were added to the depreciable base during fiscal year ended May 31, 2005, there was a decrease of \$18.1 million in depreciation expense from the prior year because other assets were fully depreciated.

For fiscal 2005, nonoperating income was \$10.4 million, which was \$9.1 million higher than the \$1.3 million in fiscal 2004. This increase is mostly attributable to an \$8.0 million or 26.0% increase in investment income, a \$4.5 million or 9.5% increase in Oil Company Franchise Tax revenues and a \$2.5 million or 2.1% decrease in interest and bond expenses. The improvement in investment income was the result of a \$0.4 million increase in fair value of investments versus an \$11.1 million decrease in the previous year. The above increases were partially offset by a \$5.1 million decrease in federal and state grants and reimbursements.

## Pennsylvania Turnpike Commission

### Management's Discussion and Analysis (continued)

#### **Financial Analysis (continued)**

For fiscal 2004, operating revenues increased 5.7% over fiscal 2003, which was the result of an 8.6 million or 4.8% increase in vehicle volumes. This increase was offset by a 1.4% increase in cost of services; the net result was a \$19.7 million or 33.4% decrease in operating loss.

The increases in operating revenues and cost of services in fiscal 2004 netted to an 11.6% increase in operating income before depreciation. Although \$114.5 million of capital assets were added to the depreciable base during fiscal year ended May 31, 2004, there was little change in depreciation expense from fiscal 2003 because other assets were fully depreciated. For the fiscal year ended May 31, 2003, \$179.8 million of assets were added to the Commission's depreciable base.

Fiscal 2004 nonoperating income decreased by \$37.4 million compared to fiscal 2003. This was the result of a \$27.8 million, or 47.4%, decrease in investment income and a \$15.8 million, or 15.1%, increase in interest and bond expenses. The reduction in investment income was the result of an \$11.1 million decrease in market value of investments compared with a \$19.0 million increase in fiscal 2003. This reduction in market values was partially offset by \$10.7 million of miscellaneous income resulting from the Escrow Restructuring Agreement related to the partially defeased 1998 Series A and B Oil Company Franchise Tax Revenue Bonds. The increase in interest expense during fiscal 2004 was mostly related to the issuance of the 2003 Series A, B, and C Oil Company Franchise Tax Revenue Bonds. Capitalized interest changed very little compared to the previous year and totaled \$6.9 million and \$6.5 million at May 31, 2004 and 2003, respectively. Additionally, reimbursement income increased \$7.7 million or 21.8% in fiscal 2004, while Oil Company Franchise Tax revenues increased at the same rate as in 2003, \$0.8 million or 1.7%.

#### **Capital Assets and Debt Administration**

##### *Capital Assets*

The Commission's investment in capital assets as of May 31, 2005, amounted to \$5.7 billion of gross asset value with accumulated depreciation of \$2.9 billion, leaving a net book value of \$2.8 billion. This investment represents more than 66% of the Commission's total assets. Capital assets consist of land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are typically items that are immovable such as highways, bridges, and tunnels. The net book value of capital assets as May 31, 2004 was \$2.7 billion.



## Pennsylvania Turnpike Commission

### Management's Discussion and Analysis (continued)

#### **Capital Assets and Debt Administration (continued)**

##### *Capital Assets (continued)*

Acquisitions of capital assets totaled more than \$15 million and \$20 million in fiscal 2005 and 2004, respectively. In addition, more than \$326 million of constructed capital assets were completed during the current year, compared to \$102 million in 2004. Construction in progress remained virtually unchanged from 2004 at \$505 million as the amount of additions, \$326 million, equaled the amount of transfers.

With the implementation of the toll increase, work began on a number of projects, which had previously been placed on hold. During the current fiscal year, the Commission spent \$257.4 million on capital improvements to the existing mainline system and \$121.8 million on the Mon-Fayette Expressway and Southern Beltway roadway expansion (Act 61) projects.

Roadway reconstruction totaling 22 miles was completed on the Somerset project that began in late 2001 and the Donegal project that began in mid 2002. Three additional roadway reconstruction projects began that will result in six additional miles of reconstructed roadway. Work also began on the \$135 million project to construct a new one mile long Susquehanna River Bridge. The Commission also completed 25 miles of roadway repaving to maintain a quality-riding surface, which was confirmed with a system wide median IRI (International Roughness Index) of 81.

The Commission continues to expand and enhance the new toll collection system that includes E-ZPass (electronic toll collection) capability. Facility projects focused on maintaining environmental compliance and the maintenance and repair of existing buildings and building systems. Equipment purchased ensures that an aging fleet of dump trucks and other equipment is replaced in a systematic manner so that maintenance staff will be properly equipped to maintain the roadway.

Approximately one-half of the 70-mile Mon-Fayette Expressway project is open and operating. The final design of the Uniontown to Brownsville section of the expressway is ongoing and final design for the PA Route 51 to Pittsburgh section of the road was initiated. Construction of the Findlay Connector portion of the Southern Beltway project that will connect the Pittsburgh International Airport to PA Route 22 is continuing. Environmental impact studies for the Southern Beltway sections from US 22 to I-79 and I-79 to the Mon-Fayette Expressway have been underway and final environmental impact statements for the projects are anticipated in late 2005 and 2006, respectively.

Pennsylvania Turnpike Commission  
Management's Discussion and Analysis (continued)

**Capital Assets and Debt Administration (continued)**

*Capital Assets (continued)*

A federal Environmental Impact Record of Decision was issued for the I-95 Turnpike interchange project in late 2004 and final design for the project has been initiated.

*Debt Administration*

The issuance of new bonds is conducted in accordance with the terms of the applicable trust indenture and approval of the Commissioners. Since 1998 the credit ratings of the Commission's bonds have been Aa3, AA- and AA- by Moody's, Standard & Poor's and Fitch Ratings, Inc., respectively.

In June 2004, the Commission issued Series A of 2004 Mainline Revenue Bonds in the amount of \$269,245,000. The 2004 Series A Bonds were issued primarily to fund various capital expenditures through fiscal year 2009 as set forth in the Commission's Ten Year Capital Plan including, but not limited to the construction of a replacement Susquehanna River Bridge, the widening and redecking of certain other bridges throughout the system, and total reconstruction between Blue Mountain Interchange, MP 201 and the Carlisle Interchange, MP 226.

In August 2004, the Commission issued Forward Starting Interest Rate Swap Agreements with three swap counterparties. As a result of these swap agreements, the Commission anticipates to issue variable rate bonds and swap the interest rate to a synthetic fixed interest rate of 4.71%. These swap agreements were issued as a hedge for the projected June 2006 issuance of Series A of 2006 Mainline Revenue Bonds. The notional amount of each swap agreement is \$80 million, for a combined total of \$240 million.

The above paragraphs describe the changes in capital assets and debt administration occurring during the fiscal year. Please refer to the capital assets and bonds payable sections in the notes to the financial statements (Notes 5 and 6) for more detailed schedules of capital assets and long-term debt activity.

On June 21, 2005, the Commission approved a resolution to advance refund Series 2001 Registration Fee Revenue Bonds with the issuance of Series 2005 Registration Fee Refunding Revenue Bonds. The refunding will be structured to provide savings, which will be realized through an estimated \$1.0 million annual debt service reduction.

## Pennsylvania Turnpike Commission

### Management's Discussion and Analysis (continued)

#### **Events That Will Impact Financial Position**

Fiscal 2005 was marked by two major events: a seven-day work stoppage and the August 1, 2004 toll increase. The work stoppage, the first since Turnpike workers became unionized in 1972, began at 4:00 a.m. on Wednesday November 24, 2004 and lasted seven days, ending shortly before midnight on Tuesday November 30, 2004. The Commission did not collect tolls from 4:00 AM to midnight on November 24, 2004 while management employees were mobilized to staff the interchanges. To facilitate traffic throughput, the Commission established flat rate tolls (\$2.00 cars and \$15.00 trucks) for the duration of the work stoppage. The Commission incurred \$4.2 million in reduced toll revenue and additional costs of approximately \$900,000 for associated expenses such as overtime, travel and lodging and temporary labor for a total impact of \$5.1 million. Since the Commission did not pay striking union workers, the \$5.1 million was partially offset by payroll savings of \$1.7 million for an overall net adverse financial impact of \$3.4 million due to the work stoppage.

The Commission expects to recoup this loss by savings permitted under the new contract. The Commission will realize \$3.1 million in healthcare cost savings over the contract term; plus, the contract includes significant work-rules revisions regarding overtime and scheduling, which will result in increased operational efficiencies and reduced costs.

As mentioned above, the Commission implemented a toll rate increase on August 1, 2004, which will allow it to double its rate of capital spending over the next 10 years. The Commission's program and project managers continually monitor capital plan project budgets using a capital planning and project reporting system to ensure that planned spending is maintained within affordable, budgeted limits. While unplanned or unusual events are always a concern, and can potentially impact the capital program's overall affordability, the Commission's executive staff and Consulting Engineer review the capital program on an ongoing basis to monitor, manage and adjust project schedules and budgets to meet affordable spending targets.

A strategic plan is utilized to guide and establish actions to be executed by staff to ensure that the organization stays focused on its strategic objectives and its stated organizational vision and mission. All capital projects are reviewed to ensure that the primary focus of all capital spending is consistent with, and supports, the strategic plan.

## Pennsylvania Turnpike Commission

### Management's Discussion and Analysis (continued)

#### **Events That Will Impact Financial Position (continued)**

The Commission's Highway Long Range Plan documents roadway condition assessments and overall highway priorities for maintaining and improving the quality and safety of all roadways, bridges, tunnels and interchanges and it is utilized to guide staff in updating the highway portion of the capital plan and measuring progress. A toll collection long range planning effort was initiated to outline the long term needs and goals for the future of the Commission's toll collection efforts consistent with the vision of establishing a non-stop free flowing toll road system. Funding is in the capital plan to undertake a facilities long-range master plan for the Commission's maintenance facilities system wide. These efforts will enhance the capital planning efforts to ensure the future physical integrity of the Commission's toll road system.

# Pennsylvania Turnpike Commission

## Balance Sheets

	<b>May 31</b>	
	<b>2005</b>	<b>2004</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 386,111	\$ 228,455
Short-term investments	166,738	43,921
Accounts receivable	30,948	24,473
Accrued interest receivable	6,139	9,646
Inventories	16,964	16,776
Total current assets	<u>606,900</u>	<u>323,271</u>
Long-term investments	725,414	789,107
Capital assets:		
Land	138,148	132,277
Buildings	643,545	638,979
Improvements other than buildings	54,547	53,486
Equipment	300,191	291,241
Infrastructure	4,109,222	3,789,194
Construction in progress	505,358	505,778
	<u>5,751,011</u>	<u>5,410,955</u>
Less accumulated depreciation	<u>2,947,242</u>	<u>2,736,350</u>
	2,803,769	2,674,605
Other assets:		
Other assets	37,018	40,993
Deferred bond issuance costs	24,389	21,271
Total other assets	<u>61,407</u>	<u>62,264</u>
Total noncurrent assets	<u>3,590,590</u>	<u>3,525,976</u>
Total assets	<u><u>\$ 4,197,490</u></u>	<u><u>\$ 3,849,247</u></u>

	May 31	
	2005	2004
	<i>(In Thousands)</i>	
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 135,124	\$ 108,893
Current portion of bonds payable	48,260	44,160
Total current liabilities	183,384	153,053
Bonds payable, less current portion, net of unamortized premium of \$4,499 and \$6,041 in 2005 and 2004 respectively.	2,408,199	2,188,756
Other noncurrent liabilities	12,604	13,912
Total noncurrent liabilities	2,420,803	2,202,668
Total liabilities	2,604,187	2,355,721
Net assets:		
Invested in capital assets, net of related debt	408,557	470,593
Restricted for certain construction and maintenance purposes	1,092,830	934,108
Unrestricted	91,916	88,825
Total net assets	1,593,303	1,493,526
Total liabilities and net assets	\$ 4,197,490	\$ 3,849,247

# Pennsylvania Turnpike Commission

## Statements of Revenues, Expenses, and Changes in Net Assets

	<b>Year ended May 31</b>	
	<b>2005</b>	<b>2004</b>
	<i>(In Thousands)</i>	
Operating revenues:		
Fares – net of discounts of \$15,971 and \$11,573 for the years ended May 31, 2005 and 2004, respectively	<b>\$ 545,158</b>	<b>\$ 408,744</b>
Other	<b>26,316</b>	<b>19,034</b>
	<b>571,474</b>	<b>427,778</b>
Operating expenses:		
Cost of services	<b>270,706</b>	<b>237,385</b>
Depreciation	<b>211,401</b>	<b>229,548</b>
	<b>482,107</b>	<b>466,933</b>
Operating income (loss)	<b>89,367</b>	<b>(39,155)</b>
Nonoperating revenues (expenses):		
Oil company franchise tax revenues	<b>51,551</b>	<b>47,062</b>
Federal and state grants and reimbursements	<b>37,647</b>	<b>42,787</b>
Investment earnings	<b>38,927</b>	<b>30,901</b>
Other nonoperating revenues	<b>658</b>	<b>1,453</b>
Interest and bond expenses	<b>(118,373)</b>	<b>(120,895)</b>
	<b>10,410</b>	<b>1,308</b>
Change in net assets	<b>99,777</b>	<b>(37,847)</b>
Net assets at beginning of year	<b>1,493,526</b>	<b>1,531,373</b>
Net assets at end of year	<b>\$ 1,593,303</b>	<b>\$ 1,493,526</b>

*See accompanying notes.*

# Pennsylvania Turnpike Commission

## Statements of Cash Flows

	<b>Year ended May 31</b>	
	<b>2005</b>	<b>2004</b>
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Cash received from tolls/customers	\$ 603,181	\$ 455,325
Cash payments for goods and services	(145,596)	(140,262)
Cash payments to employees	(144,533)	(141,389)
Cash received from other operating activities	13,983	15,623
Net cash provided by operating activities	327,035	189,297
<b>Investing activities</b>		
Proceeds from sales of investments, excluding cash equivalents	12,803,853	8,429,994
Proceeds from maturities of investments	18,852	23,139
Interest received on investments	41,255	30,370
Purchases of investments	(12,877,737)	(8,610,386)
Net cash used in investing activities	(13,777)	(126,883)
<b>Capital and related financing activities</b>		
Capital grants received	8,896	7,079
Acquisition of capital assets	(351,467)	(184,698)
Proceeds from sale of capital assets	1,072	1,290
Payments for bond expenses	(4,946)	(5,651)
Payments for redemption of revenue bonds	(44,160)	(386,360)
Interest paid on bonds	(111,349)	(112,467)
Proceeds from new bonds	267,332	483,335
Proceeds from escrow restructuring	—	10,713
Net cash used in capital and related financing activities	(234,622)	(186,759)
<b>Noncapital financing activities</b>		
Cash proceeds from motor license grant	28,000	28,000
Cash proceeds from oil company franchise tax	51,020	47,198
Net cash provided by noncapital financing activities	79,020	75,198
Increase (decrease) in cash and cash equivalents	157,656	(49,147)
Cash and cash equivalents at beginning of year	228,455	277,602
Cash and cash equivalents at end of year	\$ 386,111	\$ 228,455

*Continued on the following page – see accompanying schedule of reconciliation.*



Pennsylvania Turnpike Commission  
Statements of Cash Flows (continued)

	<b>Year ended May 31</b>	
	<b>2005</b>	<b>2004</b>
	<i>(In Thousands)</i>	
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>		
Operating income (loss)	\$ 89,367	\$ (39,155)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	211,401	229,548
Change in operating assets and liabilities:		
Accounts receivable, net of nonoperating receivables	(7,630)	91
Inventories	(188)	(4,501)
Other assets	—	16
Accounts payable and accrued liabilities, excluding interest and bond expense payables	35,376	6,287
Other noncurrent liabilities	(1,291)	(2,989)
Net cash provided by operating activities	<u>\$ 327,035</u>	<u>\$ 189,297</u>

**Noncash Activities**

The Commission recorded an increase of \$0.4 million and a decrease of \$11.1 million in the fair value of its investments for the years ended May 31, 2005 and 2004, respectively.

*See accompanying notes.*

# Pennsylvania Turnpike Commission

## Notes to Financial Statements

May 31, 2005

### **1. Financial Reporting Entity**

The Pennsylvania Turnpike Commission (Commission) was created as an instrumentality of the Commonwealth of Pennsylvania on May 21, 1937, with powers to construct, operate, and maintain the Turnpike System and to issue Turnpike revenue bonds, repayable solely from tolls and other Commission revenues. The Commission is considered a component unit of the Commonwealth of Pennsylvania (Commonwealth).

In evaluating how to define the Commission for financial reporting purposes, management has considered all potential component units in accordance with Government Accounting Standards Board (GASB) Statement No. 14, *The Reporting Entity*. GASB Statement No. 14 defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. Based on the Commission's review of GASB Statement No. 14, the Commission believes it has no component units.

The Commission consists of five members, one of whom is the Secretary of Transportation. The other four are appointed to four-year terms by the Governor with the approval of a majority of the Senate.

The Commission's revenue bonds have been issued under the provisions of a Trust Indenture, dated July 1, 1986, which has been amended and restated as of March 1, 2001, a Trust Indenture dated August 1998 (1998 Indenture) which has been amended as of August 1, 2003, and a Trust Indenture dated July 1, 2001, (collectively referred to as the Indentures) between the Commission and the Trustees (Wachovia Bank and U.S. Bank Corp.). Accordingly, certain activities of the Commission are restricted by the Indentures.

### **2. Summary of Significant Accounting Policies**

#### **Application of FASB Pronouncements**

The Commission has elected not to apply any FASB statements or interpretations issued after November 30, 1989.

#### **Basis of Accounting**

The Commission's basic financial statements are presented on the accrual basis of accounting.

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**2. Accounting Policies (continued)**

**Cash Equivalents**

For purposes of the statements of cash flows, the Commission considers all highly liquid debt investment securities with a maturity of three months or less to be cash equivalents.

**Investments**

Investments are stated at fair value with the exception of certain nonparticipating contracts such as repurchase agreements, which are reported at cost. Fair values are based on published market rates.

**Capital Assets**

Capital assets are stated at cost. Donated capital assets are valued at their estimated fair market value on the date received. Interest is capitalized based on average construction cost and the average bond interest rate, less interest earned on invested construction funds. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Acquisitions of capital assets valued at \$15,000 or greater are capitalized. The following lives are used:

Buildings	10-40 years
Improvements	15-20 years
Machinery and equipment	3-40 years
Infrastructure	20-50 years

**Inventories**

Inventories are valued at the lower of average cost (determined on a first-in, first-out method) or market.

**Bond Premium/Discount and Issuance Costs**

Bond premium/discount and issuance costs are being amortized using the effective interest rate method over the varying terms of the bonds issued.

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**2. Accounting Policies (continued)**

**Operating Revenues**

Revenues associated with operations of the toll road are considered operating revenues. The principal operating revenues of the Commission are fare revenues from customers. Most other revenues of the Commission are considered nonoperating revenues.

**Fare Revenues**

Fare revenues are recognized when vehicles exit the Turnpike System. As of May 31, 2005 and 2004, approximately 56% and 64%, respectively, of the fare revenues were simultaneously realized through cash collection or a credit card program for commercial vehicles, with the remainder realized through electronic collection.

**Operating Expenses**

Operating expenses relate directly to operating and maintaining the toll road. The principal operating expenses of the Commission are cost of services and depreciation. Other expenses are considered nonoperating expenses.

**Cost of Services**

Cost of services includes salaries, wages, benefits, purchased services, along with purchased goods, including materials and supplies.

**Utilization of Resources**

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Compensated Absences**

Sick leave is earned at a rate of 3.08 hours every two weeks, or ten days per year. Unused sick leave may be carried over from year to year up to a maximum of 18 days. In November of each year, employees are reimbursed for all accumulated unused sick leave above the maximum. Sick leave payouts were \$1,649,288 and \$1,603,958 in November 2004 and 2003, respectively.

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**2. Accounting Policies (continued)**

Vacation leave is earned at varying rates, depending on years of service. Management employees earn between 4.62 and 8.93 every two weeks. Union employees earn between 2.16 and 8.93 hours every two weeks.

Upon termination of employment, all unused sick and vacation leave is paid to the employee. Accrued vacation and sick leave liabilities were \$12,951,096 and \$11,953,006 as of May 31, 2005 and 2004, respectively, and are classified as current liabilities.

**Oil Company Franchise Tax Revenues**

The Commission receives 14% of the additional 55 mills of the Commonwealth's Oil Company Franchise Tax revenues pursuant to Act 26 established in 1991. The revenues are recorded as nonoperating revenue. Such revenues totaled \$51.5 million and \$47.1 million for the fiscal years ended May 31, 2005 and 2004, respectively. As required by the applicable indenture, these revenues are kept in a separate fund. This fund's assets, consisting essentially of cash and investments, aggregated \$647.2 million and \$620.1 million as of May 31, 2005 and 2004, respectively.

**Grants**

The Commission receives grants from other governments for reimbursement of costs for various highway construction projects. The revenues from these grants are recorded as nonoperating revenue when the costs for these projects are incurred.

The Commission received \$28.0 million in grants during each of the fiscal years ended May 31, 2005 and 2004 from the Commonwealth's Motor License Fund. The revenue from this grant is recorded as nonoperating revenue. The Commission has elected to account for this grant in a separate fund. This fund's assets, consisting essentially of cash and investments, totaled \$412.5 million and \$395.7 million as of May 31, 2005 and 2004, respectively.

**Derivatives**

The Commission enters into various interest rate swaps in order to manage risks associated with interest on its bond portfolio. As currently allowed under accounting principles generally accepted in the United States, the Commission does not record the fair market value or changes in the fair market value on the face of its financial statements. See Footnote 8 for the relevant disclosure.

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**2. Accounting Policies (continued)**

**Adoption of New Accounting Pronouncements**

On June 1, 2004, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*. As a result of adoption of GASB Statement No. 40, the Commission has enhanced cash and investment disclosures in the notes to the financial statements.

**3. Indenture Requirements and Restrictions**

The Commission is required to maintain certain accounts with the Trustees as specified by the Indentures. Funds maintained in such accounts are restricted to use for construction, Turnpike System maintenance and operation, and debt service. Nonrestricted funds of \$91.9 million and \$88.8 million represent residual amounts after all mandatory transfers have been made as required by the Indentures and were included in cash, investments, and accounts receivable at May 31, 2005 and 2004, respectively.

**4. Cash and Investments**

Cash deposits are in various financial institutions. The Indentures require that cash deposits be either insured or collateralized by a pledge of direct obligations of the United States Government or the Commonwealth of Pennsylvania or otherwise in accordance with the laws of the Commonwealth of Pennsylvania governing trust funds of public bodies.

The following summary presents the amount of Commission deposits all of which are fully insured or collateralized with securities held by the Commission or its agent in the Commission's name:

	<b>Total Bank Balance</b>	<b>Total Book Balance</b>
	<hr/> <i>(In Thousands)</i> <hr/>	
<b>May 31, 2005</b>		
Demand deposits	<b>\$ 167,654</b>	<b>\$ 171,453</b>
<b>May 31, 2004</b>		
Demand deposits	<b>\$ 95,826</b>	<b>\$ 77,823</b>

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**4. Cash and Investments (continued)**

The Indentures permit investments in obligations of, or guaranteed by, the United States of America, its agencies and instrumentalities (United States Government obligations); certificates of deposit issued by institutions insured by the FDIC or fully collateralized with United States Government obligations; investment agreements with certain financial institutions; commercial paper and asset-backed securities rated in the highest category by applicable rating agencies; money market funds and auction rate certificates rated in one of the two highest categories by applicable rating agencies; corporate bonds and medium term notes with a minimum rating of AA-; investments in long-term debt obligations of any state or political subdivision but only to the extent that the applicable rating agency has assigned a rating to such obligations which at the time of purchase is not lower than the highest underlying rating assigned to any series of Commission bonds then outstanding; and repurchase agreements with banks or primary government dealers reporting to the Federal Reserve Bank of New York collateralized with obligations of, or guaranteed by, the United States of America. The Indentures also require that no investment have an original maturity greater than 15 years.

Bond insurers have placed additional restrictions on construction funds. For these funds, corporate bonds, auction rate certificates, asset-backed securities and medium term notes are not allowed.

The Commission has an investment policy that its external money managers must follow. The policy is consistent with the Indentures regarding permitted investments; however, it imposes the following additional limitations:

- Investments in government agencies are limited to 35% of the portfolio.
- Investments in certificates of deposit and investment agreements are limited to 30% of the portfolio.
- Investments in commercial paper, corporate bonds and asset-backed securities, in aggregate, are limited to 35% of the portfolio.
- Investments in any single issuer, excluding U.S. Treasury and Federal Agencies, are limited to 5% of the portfolio.

The Commission's investment policy also limits investments to those issues expected to mature within five years, taking into consideration call, prepayment or other features that may impact maturity.

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**4. Cash and Investments (continued)**

**Credit Risk**

The Commission's exposure to credit risk as of May 31, 2005 is as follows:

Debt Investments	Fair Value	Quality Ratings			
		AAA	AA	A-1	*Unrated
(In Thousands)					
\$(00,000)					
Government agency securities	\$ 411,945	\$ 327,521	\$ —	\$ —	\$ 84,424
Corporate obligations	92,208	11,035	17,123	63,044	1,006
Municipal bonds	45,668	45,668	—	—	—
Repurchase agreements	123,992	123,992	—	—	—
Guaranteed investment contracts	33,843	—	—	—	33,843

\*Unrated debt investments are securities that are not rated by the NRSROs.

**Concentration of Credit Risk**

As of May 31, 2005, the Commission had investments of more than 5% of its consolidated portfolio with the following issuers:

Issuer	Total Investments	Percent of Total
Federal National Mortgage Association	\$ 138,091	12.5%
Federal Home Loan Board	136,617	12.3%
Federal Home Loan Mortgage Corporation	103,107	9.3%



Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**4. Cash and Investments (continued)**

**Interest Rate Risk**

The Commission manages interest rate risk through weighted average maturity (WAM). Weighted average maturity is calculated taking into consideration call dates, prepayment assumptions and other features that affect the actual maturity dates of the securities in the consolidated portfolios. On May 31, 2005, the Commission's weighted average maturity was as follows:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Weighted Average Maturity (Years)</b>
U.S. Treasuries and GNMA mortgages	\$ 399,154	0.615
Government agency security	411,945	1.540
Repurchase agreements	123,992	0.003
Municipal bonds	45,668	8.910
Guaranteed investment contracts	33,843	0.098
Corporate bonds	92,208	0.792
Total investment securities and cash equivalents	<u>\$ 1,106,810</u>	<u>1.260</u>

Following is a summary of cash and cash equivalents and investments by type:

	<b>May 31</b>	
	<b>2005</b>	<b>2004</b>
	<i>(In Thousands)</i>	
U.S. Treasuries and GNMA Mortgages	\$ 399,154	\$ 132,189
Government agency securities	411,945	414,333
Municipal bonds	45,668	24,763
Corporate obligations	92,208	88,737
Repurchase agreements	123,992	75,708
Guaranteed investment income contracts	33,843	247,930
Total investment securities and cash equivalents	<u>1,106,810</u>	<u>983,660</u>
Demand deposits	<u>171,453</u>	<u>77,823</u>
Total cash and cash equivalents and investments	<u>\$ 1,278,263</u>	<u>\$ 1,061,483</u>

# Pennsylvania Turnpike Commission

## Notes to Financial Statements (continued)

### 5. Capital Assets

Net interest costs of \$0.9 million and \$6.9 million were capitalized as part of capital assets for the years ended May 31, 2005 and 2004, respectively. The amount capitalized includes interest costs incurred during the years ended May 31, 2005 and 2004, of \$6.8 million and \$6.9 million, net of \$5.9 million of interest earned during 2005 on related investments acquired with revenue bond proceeds.

A summary of changes in the capital assets for the years ended May 31, 2005 and 2004 is as follows:

	Balance June 1, 2004	Additions	Transfers	Retirements	Balance May 31, 2005
<i>(In Thousands)</i>					
<b>Capitalized assets not being depreciated (cost)</b>					
Land	\$ 132,277	\$ 6,103	\$ —	\$ 232	\$ 138,148
Construction in progress	505,778	325,820	(326,240)	—	505,358
Total capital assets not being depreciated	638,055	331,923	(326,240)	232	643,506
<b>Capitalized assets being depreciated (cost)</b>					
Buildings	638,979	—	4,566	—	643,545
Improvements	53,486	—	1,061	—	54,547
Machinery and equipment	291,241	8,133	1,447	630	300,191
Infrastructure	3,789,194	862	319,166	—	4,109,222
Total capital assets being depreciated	4,772,900	8,995	326,240	630	5,107,505
Less accumulated depreciation for:					
Buildings	162,330	17,852	—	—	180,182
Improvements	34,457	2,337	—	—	36,794
Machinery and equipment	207,874	27,316	—	509	234,681
Infrastructure	2,331,689	163,896	—	—	2,495,585
Total accumulated depreciation	2,736,350	211,401	—	509	2,947,242
Total capital assets being depreciated, net	2,036,550	(202,406)	326,240	121	2,160,263
Total capital assets	\$ 2,674,605	\$ 129,517	\$ —	\$ 353	\$ 2,803,769

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

**5. Capital Assets (continued)**

	Balance June 1, 2003	Additions	Transfers	Deletions	Balance May 31, 2004
	<i>(In Thousands)</i>				
<b>Capitalized assets not being depreciated (cost)</b>					
Land	\$ 123,955	\$ 8,415	\$ —	\$ 93	\$ 132,277
Construction in progress	431,702	176,215	(102,139)	—	505,778
Total capital assets not being depreciated	555,657	184,630	(102,139)	93	638,055
<b>Capitalized assets being depreciated (cost)</b>					
Buildings	588,153	—	50,826	—	638,979
Improvements	53,486	—	—	—	53,486
Machinery and equipment	271,279	5,998	18,471	4,507	291,241
Infrastructure	3,749,954	6,398	32,842	—	3,789,194
Total capital assets being depreciated	4,662,872	12,396	102,139	4,507	4,772,900
Less accumulated depreciation for:					
Buildings	144,889	17,441	—	—	162,330
Improvements	32,101	2,356	—	—	34,457
Machinery and equipment	176,472	35,543	—	4,141	207,874
Infrastructure	2,157,481	174,208	—	—	2,331,689
Total accumulated depreciation	2,510,943	229,548	—	4,141	2,736,350
Total capital assets being depreciated, net	2,151,929	(217,152)	102,139	366	2,036,550
Total capital assets	<u>\$ 2,707,586</u>	<u>\$ (32,522)</u>	<u>\$ —</u>	<u>\$ 459</u>	<u>\$ 2,674,605</u>

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

**6. Bonds Payable**

Bonds payable consist of the following:

	May 31	
	2005	2004
	<i>(In Thousands)</i>	
Revenue bonds payable:		
1998 Series Q: Issued \$53,000 in July 1998 at a variable rate, due in varying installments through June 1, 2028	\$ 53,000	\$ 53,000
2001 Series R: Issued \$186,025 in March 2001 at 5.00%, due in varying installments through December 1, 2030	186,025	186,025
2001 Series S: Issued \$244,925 in May 2001 at 3.40% to 5.60%, due in varying installments through June 1, 2015	205,545	219,250
2001 Series T: Issued \$86,660 in September 2001 at 4.10% to 5.50%, due in varying installments through December 1, 2013	82,460	84,610
2001 Series U: Issued \$169,820 in September 2001 at a variable rate, due in varying installments through December 1, 2019	169,820	169,820
2002 Series A: Issued \$288,265 in September 2002 at a variable rate, due in varying installments through December 1, 2030	288,265	288,265
2002 Series B: Issued \$160,880 in September 2002 at a variable rate, due in varying installments through December 1, 2012	118,450	131,685
2004 Series A Issued \$269,245 in June 2004 at 5.00% to 5.50% due in varying installments through December 1, 2034	269,245	—
Total revenue bonds payable	1,372,810	1,132,655
Tax revenue bonds payable:		
1998 Series A and B Oil Company Franchise Tax Revenue: Issued \$538,880 in August 1998 at 3.85% to 5.50%, partially defeased in July 2003, due in varying installments through December 1, 2027	149,910	153,965
2003 Series A and B Oil Company Franchise Tax Revenue: Issued \$322,685 in August 2003 at 2.50% to 5.50%, due in varying installments through December 1, 2032	305,975	312,520
2003 Series C Oil Company Franchise Tax Multi-Modal Revenue: Issued \$160,000 in August 2003 at a variable rate, due in varying installments through December 1, 2032	160,000	160,000
Total tax revenue bonds payable	615,885	626,485
Registration fee revenue bonds payable:		
2001 Series: Issued \$476,065 in July 2001 at 3.00% to 5.50%, due in varying installments through July 15, 2041	463,265	467,735
	2,451,960	2,226,875
Unamortized premium (discount)	4,499	6,041
	2,456,459	2,232,916
Less current portion	48,260	44,160
	<u>\$ 2,408,199</u>	<u>\$ 2,188,756</u>

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**6. Bonds Payable (continued)**

Changes in bonds payable are as follows:

	Balance at June 1, 2004	Additions	Reductions	Balance at May 31, 2005	Due Within One Year
	<i>(In Thousands)</i>				
Revenue bonds payable	\$ 1,132,655	\$ 269,245	\$ 29,090	\$ 1,372,810	\$ 32,685
Tax revenue bonds payable	626,485	—	10,600	615,885	10,960
Registration fee bonds payable	467,735	—	4,470	463,265	4,615
	2,226,875	269,245	44,160	2,451,960	48,260
Bond premium (discount)	6,041	(528)	1,014	4,499	—
	<u>\$ 2,232,916</u>	<u>\$ 268,717</u>	<u>\$ 45,174</u>	<u>\$ 2,456,459</u>	<u>\$ 48,260</u>

	Balance at June 1, 2003	Additions	Reductions	Balance at May 31, 2004	Due Within One Year
	<i>(In Thousands)</i>				
Revenue bonds payable	\$ 1,160,435	\$ —	\$ 27,780	\$ 1,132,655	\$ 29,090
Tax revenue bonds payable	498,080	482,685	354,280	626,485	10,600
Registration fee bonds payable	472,035	—	4,300	467,735	4,470
	2,130,550	482,685	386,360	2,226,875	44,160
Bond premium (discount)	(3,244)	13,015	3,730	6,041	—
	<u>\$ 2,127,306</u>	<u>\$ 495,700</u>	<u>\$ 390,090</u>	<u>\$ 2,232,916</u>	<u>\$ 44,160</u>

In June 2004 the Commission issued \$269.2 million in Series A Revenue Bonds. The bonds were issued with interest rates from 5.00% to 5.50% and are payable in varying installments, maturing December 1, 2034.

In August 2003 the Commission issued Series A, B, and C of 2003 Oil Company Franchise Tax Revenue Bonds. Series A was issued in the amount of \$124,730,000. Series B was issued in the amount of \$197,955,000. Both Series A and B bonds were issued with interest rates from 2.50% to 5.50% and are payable in varying installments, maturing December 1, 2032. The Series C bonds are multi-modal senior revenue bonds and were issued in four subseries. Subseries C-1 and C-2 were issued in the amount of \$50,000,000 each; subseries C-3 and C-4 were issued at \$30,000,000 each. Interest payments on C-1 and C-2 bonds are due every seven days, while C-3 and C-4 are due every 35 days. Interest rates vary and are based on current auction rates, with the bonds payable in varying installments through December 1, 2032.

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**6. Bonds Payable (continued)**

In prior years as well as the current year, the Commission defeased certain revenue bonds by placing funds in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds were not included in the Commission's financial statements. At May 31, 2005 and 2004, the Commission had \$414.2 and \$424.5 million of defeased bonds outstanding.

Debt service requirements subsequent to May 31, 2005, are as follows:

<u>Year ending May 31</u>	<u>Principal Maturities</u>	<u>Interest</u>	<u>Total</u>
	<i>(In Thousands)</i>		
2006	\$ 48,260	\$ 106,135	\$ 154,395
2007	50,415	104,267	154,682
2008	52,720	102,283	155,003
2009	55,210	100,126	155,336
2010	57,800	97,936	155,736
2011-2015	337,195	446,616	783,811
2016-2020	364,505	366,684	731,189
2021-2025	362,845	297,206	660,051
2026-2030	437,590	212,353	649,943
2031-2035	523,560	107,791	631,351
2036-2040	109,850	27,394	137,244
2041-2042	52,010	2,670	54,680
	<u>\$ 2,451,960</u>	<u>\$ 1,971,461</u>	<u>\$ 4,423,421</u>

Interest on the following bonds: 2001 Series R, 2001 Series S, 2001 Series T, 2004 Series A, 1998 Series A and B Oil Company Franchise Tax Revenue, and 2003 Series A and B Oil Company Franchise Tax Revenue is payable semiannually on June 1 and December 1 of each year. The interest on the 1998 Series Q Revenue Bonds, Series U Revenue Refunding Bonds, 2002 Series A and B Revenue Bonds is payable the first of every month. The interest on the 2003 Series C Oil Company Franchise Tax Revenue bonds is payable every seven days for Subseries C-1 and C-2 and every 35 days for Subseries C-3 and C-4. The interest on the 2001 Series Registration Fee Revenue Bonds is payable semiannually on January 15 and July 15 of each year.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

**6. Bonds Payable (continued)**

Debt service requirements subsequent to May 31, 2005 related to the 1998 Series A and B Oil Company Franchise Tax Revenue Bonds and the 2003 Series A, B and C Oil Company Franchise Tax Revenue Bonds only, are as follows:

<b>Year ending May 31</b>	<b>Principal Maturities</b>	<b>Interest</b>	<b>Total</b>
<i>(In Thousands)</i>			
2006	\$ 10,960	\$ 26,542	\$ 37,502
2007	11,335	26,185	37,520
2008	11,770	25,786	37,556
2009	12,260	25,317	37,577
2010	12,775	24,813	37,588
2011-2015	73,700	114,705	188,405
2016-2020	94,700	94,346	189,046
2021-2025	122,250	67,356	189,606
2026-2030	131,125	36,727	167,852
2031-2033	135,010	7,301	142,311
	<u>\$ 615,885</u>	<u>\$ 449,078</u>	<u>\$ 1,064,963</u>

Debt service requirements subsequent to May 31, 2005 related to the 2001 Registration Fee Revenue Bonds only, are as follows:

<b>Year ending May 31</b>	<b>Principal Maturities</b>	<b>Interest</b>	<b>Total</b>
<i>(In Thousands)</i>			
2006	\$ 4,615	\$ 23,300	\$ 27,915
2007	4,780	23,117	27,897
2008	4,980	22,903	27,883
2009	5,205	22,680	27,885
2010	5,430	22,442	27,872
2011-2015	31,335	107,846	139,181
2016-2010	40,485	98,419	138,904
2021-2025	52,250	86,418	138,668
2026-2030	66,805	71,520	138,325
2031-2035	85,520	52,244	137,764
2036-2040	109,850	27,394	137,244
2041-2042	52,010	2,670	54,680
	<u>\$ 463,265</u>	<u>\$ 560,953</u>	<u>\$ 1,024,218</u>

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**6. Bonds Payable (continued)**

The Amended and Restated Trust Indenture of 2001 requires that tolls be adequate to provide funds to cover current expenses and provide (1) funds in an amount not less than the greater of 130% of the maximum principal and interest requirements for the succeeding year; or (2) 100% of the maximum principal and interest payments for the next fiscal year plus the amount required for maintenance of the Turnpike System as determined by the Commission's Consulting Engineer. If any deficiencies occur, the Commission is authorized to raise tolls appropriately.

The 1998 Series A and Series B Oil Company Franchise Tax Revenue Bonds and the 2003 Series A, Series B, Series C Oil Company Franchise Tax Revenue Bonds are secured by a pledge and assignment by the Commission to the Trustee of: (1) all proceeds from the Commission's allocation of the Commonwealth of Pennsylvania's Oil Company Franchise Tax; (2) the Commission's right to receive its allocation of the Oil Company Franchise Tax and any portion of the allocation actually received by the Commission; (3) all monies deposited into accounts or funds created by the 1998 Indenture, amended August 1, 2003; and (4) all investment earnings on all monies held in accounts and funds established by the 1998 Indenture, amended August 1, 2003.

The 1998 Indenture, amended August 1, 2003, requires the Commission to petition the General Assembly of the Commonwealth of Pennsylvania for additional funds in the event that the Commission's allocation of the Oil Company Franchise Tax is inadequate to pay maximum principal and interest payments for the succeeding year.

The Registration Fee Revenue Bonds 2001 Series are secured by a pledge and assignment by the Commission to the Trustee of any receipts, revenues and other moneys received by the Trustee on or after the date of the Indenture from the Commission Allocations and the interest and income earned on any fund or account established pursuant to the Indenture. Pursuant to Section 20 of Act 3, \$28,000,000 of the Act 3 revenues are appropriated annually to the Commission and are payable monthly to the Commission in the amount of \$2,333,333.



Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**6. Bonds Payable (continued)**

**Swap Payments and Associated Debt**

As of May 31, 2005, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows.

Year ending May 31	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal Maturities	Interest		
(In Thousands)				
2006	\$ 16,070	\$ 21,131	\$ 14,800	\$ 52,001
2007	16,815	20,644	14,542	52,001
2008	17,625	20,134	14,272	52,031
2009	18,470	19,600	13,989	52,059
2010	13,740	19,123	13,737	46,600
2011-2015	65,715	90,481	65,876	222,072
2016-2020	202,920	70,918	51,822	325,660
2021-2025	96,310	50,928	36,653	183,891
2026-2030	199,310	30,146	21,336	250,792
2031-2034	89,560	4,134	2,831	96,525
	\$ 736,535	\$ 347,239	\$ 249,858	\$ 1,333,632

As rates vary, variable-rate bond interest payments and net swap payments will vary. Please refer to Note 8 Commitments and Contingencies – Interest Rate Swaps for additional information pertaining to the individual swaps.

**7. Retirement Benefits**

Substantially all employees of the Commission participate in the Commonwealth of Pennsylvania State Employees' Retirement System (System), a cost-sharing multiple-employer public employee retirement system that was established under the provisions of Public Law 858, No. 331.

Membership in the System is mandatory for most Commission employees. The System provides retirement, death, and disability benefits, which were established by and can be amended according to statute. Retirement benefits vest after 5 years of credited service. Employees, who retire at age 60, or with 35 years of service if under age 60, are entitled to an unreduced annual retirement benefit.

# Pennsylvania Turnpike Commission

## Notes to Financial Statements (continued)

### 7. Retirement Benefits (continued)

Article II of the Pennsylvania Constitution provides the General Assembly the authority to establish or amend benefit provisions. Act 2001-9, signed into law on May 17, 2001 established Class AA membership whereby, generally, annual full retirement benefits for electing active members is 2.5% of the member's highest three-year average salary (final average salary) multiplied by years of service. Commission employees hired after June 30, 2001 are Class AA members. Members hired on or before June 30, 2001 had the option, but were not required, to elect Class AA membership. Those members not electing Class AA membership are considered Class A. The general annual benefit for full retirement for Class A members is 2% of the member's final average salary multiplied by years of service.

Covered Class A and Class AA employees are required by statute to contribute to the System at a rate of 5% and 6.25%, respectively, of their gross pay. Employees' contributions are recorded in individually identified accounts, which are also credited with interest, calculated quarterly to yield 4% per annum, as mandated by statute. Accumulated employee contributions and credited interest vest immediately and are returned to the employee upon termination of service if the employee is not eligible for other benefits.

Participating agency contributions, including those for the Commission, are also mandated by statute and are based upon an actuarially determined percentage of gross pay that is necessary to provide the System with assets sufficient to meet the benefits to be paid to System members.

The Commission's required contributions and percentage contributed are as follows:

<b>Year ended May 31</b>	<b>Commission Required Contribution</b>	<b>% Contributed</b>
	<i>(Dollars are in millions)</i>	
2005	<b>\$ 1.4</b>	<b>100%</b>
2004	<b>\$ .5</b>	<b>100%</b>
2003	<b>\$ .0</b>	<b>100%</b>
2002	<b>\$ .0</b>	<b>100%</b>

A copy of the System's annual financial statements can be obtained by writing to: State Employees' Retirement System, 30 North Third Street, P.O. Box 1147, Harrisburg, Pennsylvania 17108-1147.

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**8. Commitments and Contingencies**

**Litigation**

The Commission is a defendant in a number of legal proceedings pertaining to matters normally incidental to routine operations. Such litigation includes, but is not limited to, claims asserted against the Commission arising from alleged torts, alleged breaches of contracts, and condemnation proceedings. Tort claims against the Commission are generally barred by sovereign immunity, except as waived by statute. Further, to the extent waived, damages for any loss are limited by sovereign immunity to \$250,000 for each person and \$1,000,000 for each accident. Based on the current status of all of the Commission's legal proceedings, it is the opinion of Commission management and counsel that they will not have a material effect on the Commission's financial position.

**Construction Commitments**

At May 31, 2005, the Commission had contractual commitments for various Turnpike System improvement projects. A summary of construction commitments and their related funding source at May 31, 2005, is as follows:

	<b>Scheduled Completion Date</b>	<b>Estimated Project Cost</b>	<b>Contracts Awarded Through May 31, 2005</b>	<b>Incurred Through May 31, 2005</b>
<i>(In Thousands)</i>				
Funded previously by 1998 Bonds and currently with Registration Fee Revenue Bonds 2001 Series and 2003 Bonds:				
Mon-Fayette Extension	2012	\$ 748,479	\$ 537,087	\$ 307,561
Funded by operations and various bond proceeds:				
Other construction projects	Various	4,250,138	1,082,308	664,496
		<u>\$ 4,998,617</u>	<u>\$ 1,619,395</u>	<u>\$ 972,057</u>

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**8. Commitments and Contingencies (continued)**

**Interest Rate Swaps**

In August 2004, the Commission entered into three forward starting interest rate swap agreements with three different swap providers (counterparties). These swaps were placed on future turnpike revenue bonds to be issued in June 2006, for a total notional amount of \$240 million.

In July 2003, the Commission entered into two interest swap agreements on a portion of its debt to synthetically convert variable interest rates to fixed interest rates and thus hedge its variable rate exposure as well as preserve lower interest rates. These swaps were placed on the 2003 Series C Oil Company Franchise Tax Revenue Bonds with two different swap providers (counterparties). Based on these swap agreements, the Commission owes interest calculated at a fixed rate to the counterparties to the swaps. In return, the counterparties owe the Commission interest based on a variable rate that approximates the rate on the bonds. Only the net difference in interest payments is actually exchanged with the counterparties. The total notional amount of these swaps was approximately \$160 million at May 31, 2005. The \$160 million in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. Additionally, the Commission continues to pay interest to the bondholders at the variable rate on the bonds.

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**8. Commitments and Contingencies (continued)**

**Interest Rate Swaps (continued)**

Following is a summary of the swaps in place as of May 31, 2005. These swap agreements contain certain risks as described below.

Swap	Notional Value	Final Maturity	Floating Rate Index (Receivable)	Fixed Rate (Payable)	Fair Value from (to) Counterparty
Series U 2001	\$ 127,365,000	12/1/2019	67% of 1 mo. LIBOR <sup>(1)</sup>	4.214%	\$ (14,074,879)
	42,455,000	12/1/2019			(4,691,626)
Series A 2002	72,066,250	12/1/2030	67% of 1 mo. LIBOR <sup>(1)</sup>	4.403%	(10,884,501)
	144,070,000	12/1/2030			(21,769,002)
	72,066,250	12/1/2030			(10,884,501)
Series B 2002	29,612,500	12/1/2012	BMA <sup>(2)</sup>	4.538%	(1,417,654)
	59,225,000	12/1/2012			(2,835,309)
	29,612,500	12/1/2012			(1,417,654)
Series C 2003	48,000,000	12/1/2032	63% of 1 mo. LIBOR <sup>(1)</sup> plus 20 basis points	3.838%	(4,877,405)
	112,000,000	12/1/2032			(11,380,612)
Series 2006	240,000,000	12/1/2036	BMA <sup>(2)</sup>	4.710%	(27,211,631)
Total	<u>\$ 976,472,500</u>				<u>\$(111,444,774)</u>

<sup>(1)</sup> 1 month LIBOR was 3.13% at May 31, 2005

<sup>(2)</sup> BMA was 2.96% at May 31, 2005

- **Credit Risk** – As of May 31, 2005, the Commission was not exposed to credit risk because all of the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the Commission would be exposed to credit risk in the amount of the derivatives' fair values. To mitigate the potential for credit risk, the swap agreements include collateral provisions in the event of downgrades to the swap counterparties' credit ratings. Collateral would be posted with a third-party custodian and would be in the form of cash, U.S. Treasury Obligations or U.S. Government Agency Securities. The Commission had seven counterparties at May 31, 2005. The credit ratings of the swap providers as of May 31, 2005 were AAA to AA- and Aaa to Aa3 by Standard & Poor's and Moody's, respectively.
- **Interest Rate Risk** – The Commission will be exposed to variable interest rates if one or more of the swap providers defaults or if a swap is terminated.

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**8. Commitments and Contingencies (continued)**

**Interest Rate Swaps (continued)**

- **Basis Risk** – The underlying variable rates for the Commission's Series U and Series A bonds are based on BMA (Bond Market Association) while the Series U and Series A swaps are based on a percentage of LIBOR. Therefore, the Commission is exposed to basis risk to the extent BMA exceeds 67% of one month LIBOR. The underlying variable rates for the Commission's 2003 Series C bonds are based on auction rates. The auction rates approximate BMA. The Series C swaps, with a combined notional value of \$160 million, are based on a percentage of LIBOR plus 20 basis points. Therefore, the Commission is exposed to basis risk to the extent auction rates exceed 63% of one month LIBOR plus 20 basis points.
- **Termination Risk** – The swap agreements may be terminated due to a number of circumstances and the Commission retains the option to terminate the swaps at any time. If the Commission were required to make a termination payment because of a termination event (by either party), then the Commission would have the option to enter into a new swap to match the remaining amortization of the underlying bonds and apply the payment it received toward the termination payment. It is the Commission's intent to maintain the swap transactions for the life of the financing.

**9. Related Party Transactions**

The Commission incurred costs of \$25.3 million and \$24.6 million related to its use of the Commonwealth's State Police in patrolling the Turnpike System in 2005 and 2004, respectively.

**10. Postretirement Benefits**

The Commission offers certain postretirement medical, prescription drug, dental, and eye care benefits to management employees who have reached 20 years of service and are under age 60. Benefit eligibility changes from 20 to 10 years for retirees 60 years of age or older.

The Commission offers certain postretirement medical and prescription drug benefits to union employees who have reached 20 years of service and are under age 60. Benefit eligibility changes from 20 to 10 years of service for retirees 60 years of age or older.

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**10. Postretirement Benefits (continued)**

As of May 31, 2005, 782 retirees were eligible for such benefits. The Commission has elected to account for the postretirement benefits as expenses are incurred. The Commission's expense for postretirement benefits was \$4.2 million and \$2.9 million in 2005 and 2004, respectively.

**11. Self-Insurance**

The Commission is exposed to various risks of losses such as theft of, damage to, and destruction of assets, errors and omissions, third-party torts, injuries to employees, injuries to third parties due to accidents caused by Commission automobiles, and natural disasters. The Commission has purchased commercial insurance for all risks of losses, including employee medical benefits, except for torts, injuries to employees, and injuries to third parties due to accidents caused by Commission automobiles. No settlements exceeded insurance coverage for each of the past three years.

The Commission recorded a liability of \$14.7 million and \$16.2 million for loss and loss adjustment expenses on claims relating to self-insurance that have been incurred but not reported as of May 31, 2005 and 2004, respectively. This liability is based on GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be recorded if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability is calculated based on the Commission's past loss experience. The liability was discounted using a rate of 3.59% and 3.50% as of May 31, 2005 and 2004, respectively. The liability includes amounts for claims adjustment expense and is net of any salvage and subrogation. Salvage and subrogation were not material for the years ended May 31, 2005 and 2004. The Commission believes the liability established is reasonable and appropriate to provide for settlement of losses and related loss adjustment expenses.

Management believes that its reserve for claims incurred but not reported is determined in accordance with generally accepted actuarial principles and practices. However, estimating the ultimate liability is a complex and judgmental process inasmuch as the amounts are based on management's informed estimates and judgments using data currently available. As additional experience and data become available regarding claim payments and reporting patterns, legislative developments, and economic conditions, the estimates are revised accordingly and the impact is reflected currently in the Commission's financial statements.

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**11. Self-Insurance (continued)**

The following summary provides aggregated information on self-insurance liabilities:

	Year ended May 31, 2005							
		Effects of Discount					Effects of Discount	
	June 1, 2004	as of June 1, 2004	Incurred Claims		Paid Claims		as of May 31, 2005	May 31, 2005
	Liability		Current Year	Prior Years	Current Year	Prior Years		Liability
			(In Thousands)					
Workers' compensation	\$ 8,265	\$ 2,655	\$ 1,403	\$ 403	\$ 413	\$ 2,433	\$ 2,297	\$ 7,583
Automobile/general tort	7,914	—	208	206	114	1,114	—	7,100
	<u>\$ 16,179</u>	<u>\$ 2,655</u>	<u>\$ 1,611</u>	<u>\$ 609</u>	<u>\$ 527</u>	<u>\$ 3,547</u>	<u>\$ 2,297</u>	<u>\$ 14,683</u>

	Year ended May 31, 2004							
		Effects of Discount	Incurred Claims		Paid Claims		Effects of Discount	
	June 1, 2003 Liability	as of June 1, 2003	Current Year	Prior Years	Current Year	Prior Years	as of May 31, 2004	May 31, 2004 Liability
	<i>(In Thousands)</i>							
Workers' compensation	\$ 7,982	\$ 2,559	\$ 1,301	\$ 2,401	\$ 643	\$ 2,680	\$ 2,655	\$ 8,265
Automobile/general tort	11,102	—	291	(2,590)	171	718	—	7,914
	<u>\$ 19,084</u>	<u>\$ 2,559</u>	<u>\$ 1,592</u>	<u>\$ (189)</u>	<u>\$ 814</u>	<u>\$ 3,398</u>	<u>\$ 2,655</u>	<u>\$ 16,179</u>

The foregoing reflects an adjustment for a deficiency of \$0.6 million and a redundancy of \$0.2 million in May 31, 2005 and 2004, respectively, prior years' incurred claims that resulted from a change in estimate as more information became available.

**12. Segment Information**

The Pennsylvania Turnpike Commission consists of three segment types. These segments are based on the types of revenues and the associated bond issues. The Mainline consists of income and expenses directly associated with the operations of the toll road. In addition, all bonds pledged against this revenue source are included in this segment.

The Oil Company Franchise segment consists of revenues received from the Commission's allocation of the Commonwealth of Pennsylvania's Oil Company Franchise Tax. This revenue is pledged against the associated 1998 Series A and Series B Oil Company Franchise Tax Revenue Bonds and the 2003 Series A, Series B, Series C Oil Company Franchise Tax Revenue Bonds.



Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**12. Segment Information (continued)**

The Motor License segment consists of an annual income of \$28 million which has been awarded to the Commission pursuant to Section 20 of Act 3 of the Commonwealth of Pennsylvania. This income is pledged against the Registration Fee Revenue Bonds 2001 Series.

**Balance Sheet**

	Year ended May 31, 2005			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 258,318	\$ 87,522	\$ 40,271	\$ 386,111
Short-term investments	5,303	144,248	17,187	166,738
Accounts receivable	25,988	4,858	102	30,948
Accrued interest receivable	636	4,881	622	6,139
Inventories	16,964	—	—	16,964
Total current assets	307,209	241,509	58,182	606,900
Long-term investments	211,271	386,657	127,486	725,414
Capital assets:				
Land	138,148	—	—	138,148
Buildings	643,545	—	—	643,545
Improvements other than buildings	54,547	—	—	54,547
Equipment	300,191	—	—	300,191
Infrastructure	4,109,222	—	—	4,109,222
Construction in progress	271,973	11,561	221,824	505,358
	5,517,626	11,561	221,824	5,751,011
Less accumulated depreciation	2,947,242	—	—	2,947,242
	2,570,384	11,561	221,824	2,803,769
Other assets:				
Other assets	37,018	—	—	37,018
Deferred bond issuance costs	11,852	7,522	5,015	24,389
Total other assets	48,870	7,522	5,015	61,407
Total noncurrent assets	2,830,525	405,740	354,325	3,590,590
Total assets	\$ 3,137,734	\$ 647,249	\$ 412,507	\$ 4,197,490

*Continued on the following page.*

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**12. Segment Information (continued)**

**Balance Sheet (continued)**

	Year ended May 31, 2005			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Liabilities and net assets</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 105,887	\$ 12,063	\$ 17,174	\$ 135,124
Current portion of bonds payable	32,685	10,960	4,615	48,260
Total current liabilities	138,572	23,023	21,789	183,384
 Bonds payable, less current portion, net of unamortized premium/discount	 1,347,610	 608,289	 452,300	 2,408,199
Other noncurrent liabilities	12,408	196	—	12,604
Total noncurrent liabilities	1,360,018	608,485	452,300	2,420,803
Total liabilities	1,498,590	631,508	474,089	2,604,187
 Net assets:				
Invested in capital assets, net of related debt	1,238,800	(600,167)	(230,076)	408,557
Restricted for certain construction and maintenance purposes	399,306	544,097	149,427	1,092,830
Unrestricted	1,038	71,811	19,067	91,916
Total net assets	1,639,144	15,741	(61,582)	1,593,303
Total liabilities and net assets	\$ 3,137,734	\$ 647,249	\$ 412,507	\$ 4,197,490

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**12. Segment Information (continued)**

**Statement of Revenues, Expenses, and Changes in Net Assets**

	Year ended May 31, 2005			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
Operating revenues:				
Net fares	\$ 545,158	\$ —	\$ —	\$ 545,158
Other	26,316	—	—	26,316
	<u>571,474</u>	<u>—</u>	<u>—</u>	<u>571,474</u>
Operating expenses:				
Cost of services	269,020	1,393	293	270,706
Depreciation	211,401	—	—	211,401
	<u>480,421</u>	<u>1,393</u>	<u>293</u>	<u>482,107</u>
Operating income (loss)	91,053	(1,393)	(293)	89,367
Nonoperating revenues				
(expenses):				
Oil company franchise tax revenues	—	51,551	—	51,551
Federal and state grants and reimbursements	4,832	—	32,815	37,647
Investment earnings	8,749	18,322	11,856	38,927
Other nonoperating revenues	658	—	—	658
Interest and bond expenses	(64,635)	(29,983)	(23,755)	(118,373)
	<u>(50,396)</u>	<u>39,890</u>	<u>20,916</u>	<u>10,410</u>
Change in net assets	40,657	38,497	20,623	99,777
Net assets at beginning of year	1,593,019	(21,846)	(77,647)	1,493,526
Asset transfers	5,468	(910)	(4,558)	—
Net assets at end of year	<u>\$ 1,639,144</u>	<u>\$ 15,741</u>	<u>\$(61,582)</u>	<u>\$ 1,593,303</u>

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**12. Segment Information (continued)**

**Statement of Cash Flows**

	Year ended May 31, 2005			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Operating activities</b>				
Cash received from tolls/customers	\$ 603,181	\$ —	\$ —	\$ 603,181
Cash payments for goods and services	(148,856)	(491)	3,751	(145,596)
Cash payments to employees	(143,885)	(325)	(323)	(144,533)
Cash received from other operating activities	12,596	—	1,387	13,983
Net cash provided by (used in) operating activities	323,036	(816)	4,815	327,035
<b>Investing activities</b>				
Proceeds from sales of investments, excluding cash equivalents	12,074,801	225,774	503,278	12,803,853
Proceeds from maturities of investments	1,862	15,122	1,868	18,852
Interest received on investments	8,702	19,750	12,803	41,255
Purchases of investments	(12,247,889)	(232,254)	(397,594)	(12,877,737)
Net cash (used in) provided by investing activities	(162,524)	28,392	120,355	(13,777)
<b>Capital and related financing activities</b>				
Capital grants received	3,137	—	5,759	8,896
Acquisition of capital assets	(230,916)	(11,714)	(108,837)	(351,467)
Proceeds from sale of capital assets	105	967	—	1,072
Payments for bond expenses	(4,539)	(365)	(42)	(4,946)
Payments for redemption of revenue bonds	(29,090)	(10,600)	(4,470)	(44,160)
Interest paid on bonds	(59,021)	(28,873)	(23,455)	(111,349)
Proceeds from new bonds	267,332	—	—	267,332
Proceeds from escrow restructuring	—	—	—	—
Net cash (used in) provided by capital and related financing activities	(52,992)	(50,585)	(131,045)	(234,622)

*Continued on the following page.*

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**12. Segment Information (continued)**

**Statement of Cash Flows (continued)**

	Year ended May 31, 2005			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Noncapital financing activities</b>				
Interfund transfers	\$ —	\$ (3)	\$ 3	\$ —
Cash proceeds from motor license grant	—	—	28,000	28,000
Cash proceeds from oil company franchise tax	—	51,020	—	51,020
Net cash provided by (used in) noncapital financing activities	—	51,017	28,003	79,020
Increase (decrease) in cash and cash equivalents	107,520	28,008	22,128	157,656
Cash and cash equivalents at beginning of year	150,798	59,514	18,143	228,455
Cash and cash equivalents at end of year	<u>\$ 258,318</u>	<u>\$ 87,522</u>	<u>\$ 40,271</u>	<u>\$ 386,111</u>

*Continued on the following page – see accompanying schedule of reconciliation.*

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**12. Segment Information (continued)**

**Statement of Cash Flows (continued)**

	Year ended May 31, 2005			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>				
Operating income (loss)	\$ 91,053	\$ (1,393)	\$ (293)	\$ 89,367
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation	211,401	—	—	211,401
Change in operating assets and liabilities:				
Accounts receivable, net of nonoperating receivables	(7,630)	—	—	(7,630)
Inventories	(188)	—	—	(188)
Other assets	—	—	—	—
Accounts payable and accrued liabilities, excluding interest and bond expense payables	29,691	577	5,108	35,376
Other noncurrent liabilities	(1,291)	—	—	(1,291)
Net cash provided by (used in) operating activities	<u>\$ 323,036</u>	<u>\$ (816)</u>	<u>\$ 4,815</u>	<u>\$ 327,035</u>
<b>Noncash activities</b>				
Increase (decrease) in fair value of investments	<u>\$ 1,859</u>	<u>\$ (1,402)</u>	<u>\$ (67)</u>	<u>\$ 390</u>

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**12. Segment Information (continued)**

**Balance Sheet**

	Year ended May 31, 2004			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 150,798	\$ 59,514	\$ 18,143	\$ 228,455
Short-term investments	5,021	38,900	—	43,921
Accounts receivable	17,807	4,327	2,339	24,473
Accrued interest receivable	446	4,827	4,373	9,646
Inventories	16,776	—	—	16,776
Total current assets	190,848	107,568	24,855	323,271
Long-term investments	37,558	502,130	249,419	789,107
Capital assets:				
Land	132,277	—	—	132,277
Buildings	638,979	—	—	638,979
Improvements other than buildings	53,486	—	—	53,486
Equipment	291,241	—	—	291,241
Infrastructure	3,789,194	—	—	3,789,194
Construction in progress	387,555	1,991	116,232	505,778
	5,292,732	1,991	116,232	5,410,955
Less accumulated depreciation	2,736,350	—	—	2,736,350
	2,556,382	1,991	116,232	2,674,605
Other assets:				
Other assets	40,423	570	—	40,993
Deferred bond issuance costs	8,289	7,829	5,153	21,271
Total other assets	48,712	8,399	5,153	62,264
Total noncurrent assets	2,642,652	512,520	370,804	3,525,976
Total assets	<u>\$ 2,833,500</u>	<u>\$ 620,088</u>	<u>\$ 395,659</u>	<u>\$ 3,849,247</u>

*Continued on the following page.*

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**12. Segment Information (continued)**

**Balance Sheet (continued)**

	Year ended May 31, 2004			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Liabilities and net assets</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 85,104	\$ 11,692	\$ 12,097	\$ 108,893
Current portion of bonds payable	29,090	10,600	4,470	44,160
Total current liabilities	114,194	22,292	16,567	153,053
 Bonds payable, less current portion, net of unamortized premium/discount	 1,112,587	 619,430	 456,739	 2,188,756
Other noncurrent liabilities	13,700	212	—	13,912
Total noncurrent liabilities	1,126,287	619,642	456,739	2,202,668
Total liabilities	1,240,481	641,934	473,306	2,355,721
 Net assets:				
Invested in capital assets, net of related debt	1,450,173	(630,933)	(348,647)	470,593
Restricted for certain construction and maintenance purposes	141,916	539,700	252,492	934,108
Unrestricted	930	69,387	18,508	88,825
Total net assets	1,593,019	(21,846)	(77,647)	1,493,526
Total liabilities and net assets	\$ 2,833,500	\$ 620,088	\$ 395,659	\$ 3,849,247



Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**12. Segment Information (continued)**

**Statement of Revenues, Expenses, and Changes in Net Assets**

	Year ended May 31, 2004			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
Operating revenues:				
Net fares	\$ 408,744	\$ —	\$ —	\$ 408,744
Other	19,034	—	—	19,034
	427,778	—	—	427,778
Operating expenses:				
Cost of services	236,759	451	175	237,385
Depreciation	229,548	—	—	229,548
	466,307	451	175	466,933
Operating loss	(38,529)	(451)	(175)	(39,155)
Nonoperating revenues				
(expenses):				
Oil company franchise tax revenues	—	47,062	—	47,062
Federal and state grants and reimbursements	6,159	—	36,628	42,787
Investment earnings	6,945	1,205	22,751	30,901
Other nonoperating revenues	1,453	—	—	1,453
Interest and bond expenses	(51,115)	(45,870)	(23,910)	(120,895)
	(36,558)	2,397	35,469	1,308
Change in net assets	(75,087)	1,946	35,294	(37,847)
Net assets at beginning of year	1,654,753	(211,446)	88,066	1,531,373
Asset transfers	13,353	187,654	(201,007)	—
Net assets at end of year	\$ 1,593,019	\$ (21,846)	\$ (77,647)	\$ 1,493,526

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**12. Segment Information (continued)**

**Statement of Cash Flows**

	Year ended May 31, 2004			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Operating activities</b>				
Cash received from tolls/customers	\$ 455,325	\$ —	\$ —	\$ 455,325
Cash payments for goods and services	(141,863)	(51)	1,652	(140,262)
Cash payments to employees	(141,389)	—	—	(141,389)
Cash received from other operating activities	15,623	—	—	15,623
Net cash provided by (used in) operating activities	187,696	(51)	1,652	189,297
<b>Investing activities</b>				
Proceeds from sales of investments, excluding cash equivalents	7,895,666	359,891	174,437	8,429,994
Proceeds from maturities of investments	3,611	11,518	8,010	23,139
Interest received on investments	2,902	11,075	16,393	30,370
Purchases of investments	(7,906,375)	(679,766)	(24,245)	(8,610,386)
Net cash (used in) provided by investing activities	(4,196)	(297,282)	174,595	(126,883)
<b>Capital and related financing activities</b>				
Capital grants received	—	—	7,079	7,079
Acquisition of capital assets	(130,466)	(2,744)	(51,488)	(184,698)
Proceeds from sale of capital assets	1,290	—	—	1,290
Payments for bond expenses	(2,319)	(3,289)	(43)	(5,651)
Payments for redemption of revenue bonds	(27,780)	(354,280)	(4,300)	(386,360)
Interest paid on bonds	(53,280)	(35,573)	(23,614)	(112,467)
Proceeds from new bonds	—	483,335	—	483,335
Proceeds from escrow restructuring	—	—	10,713	10,713
Net cash (used in) provided by capital and related financing activities	(212,555)	87,449	(61,653)	(186,759)

*Continued on the following page.*

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**12. Segment Information (continued)**

**Statement of Cash Flows (continued)**

	Year ended May 31, 2004			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Noncapital financing activities</b>				
Interfund transfers	\$ —	\$ 186,537	\$(186,537)	\$ —
Cash proceeds from motor license grant	—	—	28,000	28,000
Cash proceeds from oil company franchise tax	—	47,198	—	47,198
Net cash provided by (used in) noncapital financing activities	—	233,735	(158,537)	75,198
(Decrease) increase in cash and cash equivalents	(29,055)	23,851	(43,943)	(49,147)
Cash and cash equivalents at beginning of year	179,853	35,663	62,086	277,602
Cash and cash equivalents at end of year	\$ 150,798	\$ 59,514	\$ 18,143	\$ 228,455

*Continued on the following page – see accompanying schedule of reconciliation.*

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**12. Segment Information (continued)**

**Statement of Cash Flows (continued)**

	Year ended May 31, 2004			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Reconciliation of operating loss to net cash provided by (used in) operating activities</b>				
Operating loss	\$ (38,529)	\$ (451)	\$ (175)	\$ (39,155)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation	229,548	—	—	229,548
Change in operating assets and liabilities:				
Accounts receivable, net of nonoperating receivables	91	—	—	91
Inventories	(4,501)	—	—	(4,501)
Other assets	16	—	—	16
Accounts payable and accrued liabilities, excluding interest and bond expense payables	4,060	400	1,827	6,287
Other noncurrent liabilities	(2,989)	—	—	(2,989)
Net cash provided by (used in) operating activities	<u>\$ 187,696</u>	<u>\$ (51)</u>	<u>\$ 1,652</u>	<u>\$ 189,297</u>
<b>Noncash activities</b>				
Increase (decrease) in fair value of investments	<u>\$ 1,293</u>	<u>\$ (10,916)</u>	<u>\$ (1,471)</u>	<u>\$ (11,094)</u>

Pennsylvania Turnpike Commission  
Notes to Financial Statements (continued)

**13. Subsequent Events**

On June 21, 2005, the Commission approved a resolution to issue Series 2005 Registration Fee Revenue Bonds in an amount not to exceed \$525 million. The proceeds of the bond issuance will be used to pay bond issuance costs and advance refund Series 2001 Registration Fee Revenue Bonds.

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## **APPENDIX B**

### **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

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## **APPENDIX B**

### **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

#### **DEFINITIONS OF CERTAIN TERMS**

In addition to words and terms elsewhere defined in this Official Statement, the following words and terms as used in this Appendix B and the Indenture shall have the following meanings unless the context clearly indicates otherwise:

“Additional Bonds” -- Bonds of any Series authorized to be issued under the Indenture.

“Ambac Assurance” shall mean Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

“Financial Guaranty Insurance Policy” shall mean the financial guaranty insurance policy issued by Ambac Assurance insuring the payment when due of the principal of and interest on the Obligations as provided therein.

“Annual Capital Budget” -- the budget adopted by the Commission pursuant to the provisions described under the heading “The Indenture--Annual Operating Budget; Capital Budget.”

“Annual Debt Service” -- (i) the amount of principal and interest paid or payable with respect to Bonds in a Fiscal Year plus (ii) Reimbursement Obligations paid or payable by the Commission in such Fiscal Year (but only to the extent they are not duplicative of such principal and interest), plus (iii) the amounts, if any, paid or payable by the Commission in such Fiscal Year with respect to Approved Swap Agreements, minus (iv) the amounts, if any, paid or payable to the Commission in such Fiscal Year with respect to Approved Swap Agreements, provided that the difference between the amounts described in clauses (iii) and (iv) shall be included only to the extent that such difference would not be recognized as a result of the application of the assumptions set forth below. The following assumptions shall be used to determine the Annual Debt Service becoming due in any Fiscal Year:

(a) in determining the principal amount paid or payable with respect to Bonds or Reimbursement Obligations in each Fiscal Year, payment shall be assumed to be made in accordance with any amortization schedule established for such Indebtedness, including amounts paid or payable pursuant to any mandatory redemption schedule for such Indebtedness;

(b) if any of the Indebtedness or proposed Indebtedness constitutes Balloon Indebtedness, then such amounts thereof as constitute Balloon Indebtedness shall be treated as if such Indebtedness is to be amortized in substantially equal annual installments of principal and interest over a term of 25 years from the date of issuance of such Indebtedness. Anything to the contrary in the Indenture notwithstanding, during the year preceding the final maturity date of such Indebtedness, all of the principal thereof shall be considered to be due on such maturity date unless the Commission provides to the Trustee a certificate of a Financial Consultant certifying that, in its judgement, the Commission will be able to issue a take-out Indebtedness for such Balloon Indebtedness, in which event the Balloon Indebtedness shall be amortized over the term of such take-out Indebtedness and shall bear the interest rate specified in the certificate of the Financial Consultant;

(c) if any of the Indebtedness or proposed Indebtedness constitutes Variable Rate Indebtedness, then interest in future periods shall be based on the Assumed Variable Rate.

(d) Termination or similar payments under an Approved Swap Agreement shall not be taken into account in any calculation of Annual Debt Service.

“Annual Operating Budget” -- the budget adopted by the Commission pursuant to the provisions described under the heading “The Indenture--Annual Operating Budget; Capital Budget.”

“Applicable Long-Term Indebtedness” -- includes Bonds, Additional Bonds, Reimbursement Obligations and obligations of the Commission under Approved Swap Agreements, to the extent the same constitute Long-Term Indebtedness, and excludes Subordinated Indebtedness.

“Approved Swap Agreement” -- shall have the meaning set forth below under the heading “The Indenture--Approved and Parity Swap Obligations”.

“Assumed Variable Rate” -- in the case of (1) Outstanding Variable Rate Indebtedness, the average interest rate on such Indebtedness for the most recently completed 12-month period; and (2) proposed Variable Rate Indebtedness, (a) which will, in the opinion of Bond Counsel delivered at the time of the issuance thereof be excluded from gross income for federal income tax purposes, the average of the Bond Market Association Swap Index (“BMA Index”) for the 12 months ending 7 days preceding the date of calculation plus 100 basis points, or (b) in the case of Bonds not described in clause (a), the London Interbank Offered Rate (“Libor”) most closely resembling the reset period for the Variable Rate Indebtedness plus 100 basis points; provided that if the BMA Index or Libor shall cease to be published, the index to be used in its place shall

be that index which the Commission in consultation with the Financial Consultant determines most closely replicates such index, as set forth in a certificate of a Commission Official filed with the Trustee

“Authenticating Agent” -- that Person designated and authorized to authenticate any series of Bonds or such Person designated by the Authenticating Agent to serve such function, and shall initially be the Trustee.

“Authorized Denominations” -- with respect to any Additional Bonds issued under a Supplemental Indenture, those denominations specified in such Supplemental Indenture.

“Balloon Indebtedness” -- Long-Term Indebtedness of which 25% or more of the principal matures in the same Fiscal Year and is not required by the documents pursuant to which such Indebtedness was issued to be amortized by payment or redemption prior to that Fiscal Year, provided that such Indebtedness will not constitute Balloon Indebtedness if the Trustee is provided a certificate of a Commission Official certifying that such Indebtedness is not to be treated as Balloon Indebtedness (because, by way of example, such Indebtedness is intended to serve as “wrap around” Indebtedness).

“Bank” -- as to any particular Series of Bonds, each Person (other than a Bond Insurer) providing a letter of credit, a line of credit, a guaranty or another credit or liquidity enhancement facility as designated in the Supplemental Indenture providing for the issuance of such Bonds.

“Bank Fee” -- any commission, fee or expense payable to a Bank pursuant to a Reimbursement Agreement (but not amounts payable as reimbursement for amounts drawn under a Credit Facility or interest on such amounts).

“Bankruptcy Law” -- Title 9 of the United States Code, as amended from time to time, and any successor to or replacement of such Title and any other applicable federal or state bankruptcy, insolvency or similar law.

“Beneficial Owner” -- the beneficial owner of any Bond which is held by a nominee.

“Bond” or “Bonds” -- Bonds outstanding under the Prior Indenture and indebtedness of any kind or class, including bonds, notes, bond anticipation notes, commercial paper and other obligations, issued as Additional Bonds under Section 210, other than Additional Bonds issued as Subordinated Indebtedness.

“Bond Buyer Index” -- shall mean the Bond Buyer 20-Bond Index as published weekly in “The Bond Buyer”. If such Index shall cease to be published, the Financial Consultant shall select another index which shall be reflective of the Commission’s fixed borrowing cost.

“Bond Counsel” -- any attorney or firm of attorneys whose experience in matters relating to the issuance of obligations by states and their political subdivisions is nationally recognized.

“Bond Insurer” -- as to any particular maturity or any particular Series of Bonds, the Person undertaking to insure such Bonds as designated in a Supplemental Indenture providing for the issuance of such Bonds.

“Bond Owner,” “Bondholder,” “Holder,” “Owner” or “Registered Owner” (or the lower case version of the same) -- the Person in whose name any Bond or Bonds are registered on the books maintained by the Registrar.

“Bond Register” -- the register maintained pursuant to Section 205.

“Bond Registrar” -- with respect to any series of Bonds, that Person which maintains the bond register or such other entity designated by the Bond Registrar to serve such function and initially shall be the Trustee.

“Book-Entry-Only System” -- a system similar to the system described in the Indenture and this Official Statement under “Book-Entry Only System” pursuant to which Bonds are registered in book-entry form.

“Business Day” -- any day other than a Saturday or a Sunday or a day on which banking institutions are required or authorized by law or executive order to remain closed in the city in which the designated office of the Trustee is located, the Commonwealth or the City of New York.

“Chief Engineer” -- the employee of the Commission designated its “Chief Engineer” or any successor title.

“Code” -- the Internal Revenue Code of 1986, as amended, and the regulations proposed or in effect with respect thereto.

“Commonwealth” -- the Commonwealth of Pennsylvania.

“Commission Official” -- any commissioner, director, officer or employee of the Commission authorized to perform specific acts or duties by resolution duly adopted by the Commission.

“Conditional Redemption” -- a redemption of Bonds (1) that is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Trustee no later than the redemption date or (2) that

the Commission retains the right to rescind such notice at any time prior to the scheduled redemption date if the Commission delivers a certificate of a Commission Official to the Trustee instructing the Trustee to rescind the redemption notice.

“Consultant” -- a Person who shall be independent, appointed by the Commission as needed, qualified and having a nationwide and favorable reputation for skill and experience in such work for which the Consultant was appointed. In those situations in which a Consultant is appointed to survey risks and to recommend insurance coverage, such Consultant may be a broker or agent with whom the Commission transacts business.

“Consulting Engineers” -- the engineer or engineering firm or corporation at the time employed by the Commission under the Indenture.

“Cost” -- all or any part of:

- (a) the cost of construction, reconstruction, restoration, repair and rehabilitation of a Project or portion thereof (including, but not limited to, indemnity and surety bonds, permits, taxes or other municipal or governmental charges lawfully levied or assessed during construction),
- (b) the cost of acquisition of all real or personal property, rights, rights-of-way, franchises, easements and interests acquired or used for such Project or portion thereof;
- (c) the cost of demolishing or removing any structures on land so acquired, including the cost of acquiring any land to which the structures may be removed;
- (d) any cost of borings and other preliminary investigations necessary or incident to determining the feasibility or practicability of constructing such Project and any cost necessary or desirable to satisfy conditions associated with the issuance of any permit for the construction thereof (including the costs of environmental mitigation required in connection therewith);
- (e) the cost of all machinery and equipment, vehicles, materials and rolling stock;
- (f) Issuance Costs;
- (g) interest on Bonds and on any Reimbursement Obligation for the period prior to, during and for a period of up to one year after completion of construction as determined by the Commission, provisions for working capital, reserves for principal and interest and for extensions, enlargements, additions, replacements, renovations and improvements;
- (h) the cost of architectural, engineering, environmental feasibility, financial and legal services;
- (i) plans, specifications, estimates and administrative and other expenses which are necessary or incidental to the determination of the feasibility of constructing such Project or portion thereof or incidental to the obtaining of construction contracts or to the construction (including construction administration and inspection), acquisition or financing thereof and which constitute capital costs;
- (j) Current Expenses, provided that, if applicable, the Trustee has received an opinion of Bond Counsel (which opinion may address either specific Current Expenses or categories of Current Expenses) to the effect that the treatment of such Current Expenses as a Cost will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes;
- (k) the repayment of any loan or advance for any of the foregoing; and
- (l) with respect to the use of Bond proceeds, such other costs and expenses as are permitted by the Enabling Acts at the time such Bonds are issued.

“Counsel” -- an attorney or law firm (who may be counsel for the Commission) not unsatisfactory to the Trustee.

“Credit Facility” -- any letter of credit, line of credit, standby letter of credit, indemnity or surety insurance policy or agreement to purchase a debt obligation or any similar extension of credit, credit enhancement or liquidity support obtained by the Commission from a responsible financial or insurance institution, to provide for or to secure payment of principal and purchase price of, and/or interest on Bonds pursuant to the provisions of a Supplemental Indenture under which such Bonds are issued. The use of such definition is not intended to preclude the Commission from providing the credit or liquidity support with respect to one or more series of Bonds directly rather than through a financial or insurance institution.

“Current Expenses” -- the Commission's reasonable and necessary current expenses of maintenance, repair and operation of the System, including, without limiting the generality of the foregoing, all premiums for insurance and payments into any self-insurance reserve fund, all administrative and engineering expenses relating to maintenance, repair and operation of the System, fees and expenses of the Trustee and of the Paying Agents, Policy Costs, legal expenses and any other expenses required to be paid by the Commission as shown in the Annual Operating Budget for the System.

“Debt Service Fund” -- the fund created by the Indenture and described under “The Indenture—Debt Service Fund.”

“Debt Service Reserve Fund” -- the fund created by the Indenture and described under “The Indenture—Debt Service Reserve Fund.”

“Debt Service Reserve Fund Bonds” -- shall mean the Long-Term Indebtedness specified by the Commission in this or any Supplemental Indenture that is secured by the Debt Service Reserve Fund as described under “The Indenture—Debt Service Reserve Fund.”

“Debt Service Reserve Requirement” -- the amount equal to the Maximum Annual Debt Service on account of all the Debt Service Reserve Fund Bonds.

“Defeasance Securities” --

1. Cash,
2. Government Obligations,
3. Government Obligations which have been stripped by the U.S. Treasury and CATS, TIGRS and similar securities,
4. Resolution Funding Corp. strips which have been stripped by request [and are held by] the Federal Reserve Bank of New York in book-entry form,
5. . Pre-refunded obligations of a state or municipality rated in the highest rating category by the Rating Agency, and
6. Obligations issued by the following agencies which are backed by the full faith and credit of the U.S.:
  - a. Farmers Home Administration  
Certificates of beneficial ownership
  - b. Federal Financing Bank
  - c. General Services Administration  
Participation certificates
  - d. U.S. Maritime Administration  
Guaranteed Title XI financing
  - e. U.S. Department of Housing and Urban Development  
Project Notes  
Local Authority Bonds  
New Communities Debentures - U.S. government guaranteed debentures
  - f. U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

“Depository” -- a bank or trust company designated as such by the Commission to receive moneys under the provisions of the Indenture and approved by the Trustee, and shall include the Trustee.

“Depository Participants” -- any Person for which the Securities Depository holds Bonds as securities depository.

“DSRF Security” -- shall have the meaning set forth under “The Indenture—Debt Service Reserve Fund.”

“DTC” -- The Depository Trust Company.

“Eastern Extension” -- the turnpike which, by virtue of an Act of the General Assembly of Pennsylvania approved May 16, 1940, P.L. 949, the Commission was authorized and empowered to construct, operate and maintain from a point at or near Middlesex in Cumberland County, Pennsylvania (the eastern terminus of the Original Turnpike) to a point at the City of Philadelphia, including all connecting roads, tunnels and bridges and all property, rights, easements and franchises relating thereto.

“Enabling Acts” -- the Act approved May 21, 1937, P.L. 774, as amended by Acts approved on various dates, including May 24, 1945 P.L. 972, and February 26, 1947, P.L. 17, and said Acts approved May 23, 1951, P.L. 335, August 14, 1951, P.L. 1232 and September 30, 1985, P.L. 240, as amended.

“Event of Bankruptcy” -- the filing of a petition in bankruptcy (or other commencement of a bankruptcy or similar proceedings) by or against the Commission as debtor, under Bankruptcy Law.

“Event of Default” -- those events specified under “The Indenture—Events of Default” and such other events specified in any Supplemental Indentures.

“Financial Consultant” -- any financial advisor or firm of financial advisors of favorable national reputation for skill and experience in performing the duties for which a Financial Consultant is required to be employed pursuant to the provisions of the Indenture and who is retained by the Commission as a Financial Consultant for the purposes of the Indenture.

“Financial Guaranty Insurance Policy” shall mean the financial guaranty insurance policy issued by Ambac Assurance insuring the payment when due of the principal of and interest on the 2006 Bonds as provided therein.

“Fiscal Year” -- the period commencing on the first day of June and ending on the last day of May of the following year.

“Fitch” – Fitch, Inc., its successors and assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized rating agency designated by the Commission.

“General Reserve Fund” -- the fund created by the Indenture and described under “The Indenture—General Reserve Fund.”

“Government Obligations” --

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed as to full and timely payment by, the United States of America,

(b) obligations issued by a Person controlled or supervised by and acting as an instrumentality of the United States of America, the payment of the principal of and interest on which is fully and unconditionally guaranteed as a full faith and credit obligation of the United States of America (including any securities described in clause (a) above issued or held in book-entry form in the name of the Trustee only on the books of the Department of Treasury of the United States of America),

(c) any certificates or any other evidences of an ownership interest in obligations or specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in clause (a) or (b) above, which obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian,

(d) stripped obligations of interest issued by the Resolution Funding Corporation pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (“FIRREA”), the interest on which, to the extent not paid from other specified sources, is payable when due by the Secretary of the Treasury pursuant to FIRREA, and

(e) obligations of any state or political subdivision thereof or any agency or instrumentality of such a state or political subdivision, provided that cash, obligations described in clause (a), (b), (c) or (d) above, or a combination thereof have been irrevocably pledged to and deposited into a segregated escrow account for the payment when due of the principal or redemption price of and interest on such obligations, and provided further that, at the time of purchase, such obligations are rated by the Rating Service in its highest rating category.

“Historical Debt Service Coverage Ratio” -- for any period of time, the ratio determined by dividing Net Revenues for such period by the Annual Debt Service for all Applicable Long-Term Indebtedness which is Outstanding during such period.

“Historical Pro Forma Debt Service Coverage Ratio” -- for any period of time, the ratio determined by dividing Net Revenues for such period by the Maximum Annual Debt Service for all Applicable Long-Term Indebtedness then Outstanding and the Applicable Long-Term Indebtedness proposed to be issued pursuant to the Indenture pursuant to the provisions described under “The Indenture—Covenants--Limitations on Issuance of Additional Bonds and Execution of Approved Swaps.”

“Immediate Notice” -- notice transmitted by electronic means, in writing, by telecopier or other electronic means or by telephone (promptly confirmed in writing) and received by the Person to whom it was addressed.

“Indebtedness” -- any obligation or debt incurred for money borrowed.

“Interest Payment Date” -- with respect to each series of Additional Bonds, the dates which are defined as such in the Supplemental Indenture under which such Additional Bonds are issued. However, in each case, if the date specified above is not a Business Day then the Interest Payment Date shall be the Business Day next succeeding the date specified above.

“Issuance Cost” -- costs incurred by or on behalf of the Commission in connection with the issuance of Additional Bonds including, without limitation, the following: payment of financial, legal, accounting and appraisal fees and expenses, the Commission's fees and expenses attributable to the issuance of the Bonds, the cost of printing, engraving and reproduction services, fees and expenses incurred in connection with any Credit Facility and any Approved Swap Obligation, legal fees and expenses for Bond Counsel, Commission's counsel, Trustee's counsel and Underwriter's counsel relating to the issuance of the Bonds, the initial or acceptance fee of the Trustee, and all other fees, charges and expenses incurred in connection with the issuance of the Bonds and the preparation of the Indenture.

“Letter of Representations” -- the letter of representations or similar document executed by the Commission and delivered to the Securities Depository (and any amendments thereto or successor agreements) for one or more Series of Book Entry Bonds.

“Long-Term Indebtedness” -- all Indebtedness, which is not (a) Short-Term Indebtedness or (b) Subordinated Indebtedness.

“Maximum Annual Debt Service” -- at any point in time the maximum amount of Annual Debt Service on all Applicable Long-Term Indebtedness, as required by the context (e.g., whether relating to all such Applicable Long-Term Indebtedness or only specified Applicable Long-Term Indebtedness) paid or payable in the then current or any future Fiscal Year.

“Moody's” -- Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, “Moody's” shall be deemed to refer to any other nationally recognized rating agency designated by the Commission.

“Net Revenues” -- the amount by which total Revenues exceed Current Expenses for any particular period.

“Other Revenues” -- any funds received or payable to the Commission, other than Revenues, which the Commission chooses to include as security for Parity Obligations and/or Subordinated Indebtedness pursuant to a Supplemental Indenture.

“Original Indenture” -- the Indenture of Trust dated as of July 1, 1986 between the Commission and the Trustee.

“Original Turnpike” -- the turnpike which, pursuant to the Act of the General Assembly of Pennsylvania approved May 21, 1937, P.L. 774, Act 211, the Commission was authorized and empowered to construct, operate and maintain from a point at or near Middlesex in Cumberland County, Pennsylvania to a point at or near Irwin in Westmoreland County, Pennsylvania, including all connecting roads, tunnels and bridges and all property, rights, easements and franchises relating thereto.

“Outstanding” or “outstanding” in connection with Bonds -- all Bonds which have been authenticated and delivered under the Indenture, except:

- (a) Bonds theretofore cancelled or delivered to the Trustee for cancellation under the Indenture;
- (b) Bonds which are deemed to be no longer Outstanding in accordance with the provisions described under “The Indenture—Defeasance”; and
- (c) Bonds in substitution for which other Bonds have been authenticated and delivered pursuant to the Indenture.

In determining whether the owners of a requisite aggregate principal amount of Bonds Outstanding have concurred in any request, demand, authorization, direction, notice, consent or waiver under the provisions of the Indenture, Bonds which are held by or on behalf of the Commission (unless all of the Outstanding Bonds are then owned by the Commission) shall be disregarded for the purpose of any such determination.

“Parity Obligations” -- includes Bonds and other obligations of the Commission owed to Secured Owners and excludes Subordinated Indebtedness.

“Parity Swap Agreement” -- shall have the meaning set forth under the heading “The Indenture--Approved and Parity Swap Obligations”.

“Parity Swap Agreement Counterparty” -- the counterparty to a Parity Swap Agreement with the Commission or with the Trustee.

“Paying Agent” -- with respect to any series of Bonds, that Person appointed pursuant to the Indenture to make payments to Bondholders of interest and/or principal pursuant to the terms of the Indenture, which initially shall be the Trustee.

“Permitted Investments” -- (to the extent permitted by law and subject to Ambac Assurance required provisions)

- (a) Government Obligations;
- (b) obligations issued or guaranteed as to full and timely payment of principal and interest by any agency or Person controlled or supervised by and acting as an instrumentality of the U.S., pursuant to authority granted by the U.S. Congress;
- (c) obligations of the Governmental National Mortgage Association, Farmers Home Administration, Federal Financing Bank, Federal Housing Administration, Maritime Administration and Public Housing Authorities, provided that the full and timely payment of the principal and interest on such obligations shall be unconditionally guaranteed by the U.S.;
- (d) obligations of the Federal Intermediate Credit Corporation and of the Federal National Mortgage Association;
- (e) obligations of the Federal Banks for Cooperation;
- (f) obligations of Federal Land Banks;
- (g) obligations of Federal Home Loan Banks; provided that the obligations described in clauses (c) through (g) above shall constitute Permitted Investments only to the extent that the Rating Agency has assigned a rating to such obligations which is not lower than the highest rating assigned by such Rating Agency to any series of comparable Bonds then Outstanding;
- (h) certificates of deposit of any bank, savings and loan or trust company organized under the laws of the U.S. or any state thereof, including the Trustee or any holder of the Bonds, provided that such certificates of deposit shall be fully collateralized (with a prior perfected security interest), to the extent they are not insured by the Federal Deposit Insurance Corporation, by Permitted Investments described in (a), (b), (c), (d), (e), (f) or (g) above having a market value at all times equal to the uninsured amount of such deposit;
- (i) money market funds registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, including funds for which the Trustee, its parent, its affiliates or its subsidiaries provide investment advisory or other management services, and which are rated by S&P, Moody's and Fitch in one of their two highest rating categories.
- (j) investment agreements (which term, for purposes of this clause, shall not include repurchase agreements) with a Qualified Financial Institution;
- (k) repurchase agreements with banks or primary government dealers reporting to the Federal Reserve Bank of New York ("Repurchasers"), including but not limited to the Trustee and any of its affiliates, provided that each such repurchase agreement results in transfer to the Trustee of legal and equitable title to, or the granting to the Trustee of a prior perfected security interest in, identified Permitted Investments described in (a), (b), (c), (d), (e), (f) or (g) above which are free and clear of any claims by third parties and are segregated in a custodial or trust account held either by the Trustee or by a third party (other than the Repurchaser) as the agent solely of, or in trust solely for the benefit of, the Trustee, provided that Government Obligations acquired pursuant to such repurchase agreements shall be valued at the lower of the then current market value of such Government Obligations or the repurchase price thereof set forth in the applicable repurchase agreement; or
- (l) Bonds or notes issued by any state or municipality which are rated by S&P, Moody's and Fitch in one of their two highest rating categories.
- (m) Commercial paper rated in the highest short-term, note or commercial paper Rating Category by S&P, Moody's and Fitch.
- (n) Any auction rate certificates which are rated by S&P, Moody's and Fitch in one of their two highest rating categories.
- (o) Corporate bonds and medium term notes rated at least "AA-" by the Rating Agency.
- (p) Asset-backed securities rated in the highest rating category by the Rating Agency.
- (q) Any other investment approved by the Commission for which confirmation is received from the Rating Agency that such investment will not adversely affect such Rating Agency's rating on such Bonds.

"Person" -- an individual, public body, a corporation, a partnership, an association, a joint stock company, a trust and any unincorporated organization.

“Pledged Bonds” -- a Bond purchased by the Trustee or Paying Agent with amounts received pursuant to a drawing under a Credit Facility and pledged to or registered in the name of a Bank which is a provider of such Credit Facility or its designee.

“Policy Costs” -- a periodic fee or charge required to be paid to maintain a DSRF Security.

“Prior Indenture” -- the Original Indenture as supplemented and amended by a First Supplemental Trust Indenture dated as of August 1, 1986, a Second Supplemental Trust Indenture dated as of November 15, 1988, a Third Supplemental Trust Indenture dated as of May 15, 1989, a Fourth Supplemental Trust Indenture dated as of November 15, 1989, a Fifth Supplemental Trust Indenture dated as of May 15, 1990, a Sixth Supplemental Trust Indenture dated as of November 15, 1990, a Seventh Supplemental Trust Indenture dated as of June 1, 1991, an Eighth Supplemental Trust Indenture dated as of July 1, 1991, a Ninth Supplemental Trust Indenture dated as of November 15, 1991, a Tenth Supplemental Trust Indenture dated as of August 1, 1992, an Eleventh Supplemental Trust Indenture dated as of June 1, 1998, a Twelfth Supplemental Trust Indenture dated as of March 1, 2001, a Thirteenth Supplemental Trust Indenture dated as of May 1, 2001, and the Fourteenth Supplemental Trust Indenture dated as of June 1, 2004, and as further supplemented and amended.

“Project” -- any improvements to the System or refundings which are authorized by the Enabling Acts or which may be hereafter authorized by law.

“Projected Annual Debt Service” -- for any future period of time, shall equal the amount of Maximum Annual Debt Service on all Applicable Long-Term Indebtedness then Outstanding and on any Applicable Long-Term Indebtedness proposed to be issued.

“Projected Debt Service Coverage Ratio” -- for the two Fiscal Years following the end of any period during which interest was fully capitalized on the Applicable Long-Term Indebtedness proposed to be issued, the ratio determined by dividing Projected Net Revenues for such period by the Projected Annual Debt Service for such period.

“Projected Net Revenues” -- projected Net Revenues for the period in question, taking into account any revisions of the Tolls which have been approved by the Commission and which will be effective during such period and any additional Tolls which the Commission or the Consultant, as appropriate, estimates will be received by the Commission following the completion of any Project then being constructed or proposed to be constructed.

“Purchase Price” -- shall mean the purchase price payment described in paragraph (a) of the definition of Tender Indebtedness.

“Qualified Financial Institution” (a) any U.S. domestic institution which is a bank, trust company, national banking association or a corporation, including the Trustee and any of its affiliates, subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, or a member of the National Association of Securities Dealers, Inc. whose unsecured obligations or uncollateralized long-term debt obligations have been assigned a rating within the two highest rating categories by the Rating Agency or which has issued a letter of credit, contract, agreement or surety bond in support of debt obligations which have been so rated; (b) an insurance company with a claims-paying ability or a corporation whose obligations are guaranteed by an insurance company (in the form of an insurance policy) or by an insurance holding company rated in the highest rating category by the Rating Agency or whose unsecured obligations or uncollateralized long-term debt obligations have been assigned a rating within the highest rating category by the Rating Agency; or (c) any banking institution whose unsecured obligations or uncollateralized long-term debt obligations have been assigned a rating within one of the two highest rating categories by the Rating Agency.

“Rate Covenant” -- the requirement to establish and maintain a schedule of Tolls sufficient to provide the funds required pursuant to the Indenture provisions described under “The Indenture—Rate Covenant.”

“Rating Agency” -- Fitch, Moody's or S&P or such other nationally recognized securities rating agency as may be so designated in writing to the Trustee by a Commission Official.

“Rating Category” -- each major rating classification established by the Rating Agency, determined without regard to gradations such as “1,” “2” and “3” or “plus” and “minus.”

“Rebate Fund” -- the fund created by the Indenture and described under “The Indenture—Rebate Fund.”

“Rebate Regulations” -- the Treasury Regulations issued under Section 148(f) of the Code.

“Record Date” -- unless otherwise provided with respect to any series of Bonds in a Supplemental Indenture: (a) for Bonds on which interest is payable on the first day of a month, the fifteenth day of the immediately preceding month; or (b) for Bonds on which interest is payable on the fifteenth day of a month, the last day of the immediately preceding month. However, in each case, if the date specified above is not a Business Day, then the Record Date shall be the Business Day next preceding the date specified above.



“Reimbursement Agreement” -- an agreement between the Commission and one or more Banks pursuant to which, among other things, such Bank or Banks issue a Credit Facility with respect to Bonds of one or more series and the Commission agrees to reimburse such Bank or Banks for any drawings made thereunder.

“Reimbursement Obligation” -- an obligation of the Commission pursuant to a Reimbursement Agreement to repay any amounts drawn under a Credit Facility and to pay interest on such drawn amounts pursuant to such Reimbursement Agreement.

“Reserve Maintenance Fund” -- the fund created by the Indenture and described under “The Indenture—Reserve Maintenance Fund.”

“Reserve Maintenance Fund Requirement” -- the amount to be deposited to the credit of the Reserve Maintenance Fund from the Revenues of the Commission pursuant to the provisions described under “The Indenture—Reserve Maintenance Fund.”

“Responsible Officer” -- when used with respect to the Trustee, any officer in the corporate trust department (or any successor thereto) of the Trustee, or any other officer or representative of the Trustee customarily performing functions similar to those performed by any of such officers and also means, with respect to a particular corporate trust matter, any other officer of the Trustee to whom such matter is referred because of that officer's knowledge of and familiarity with the particular subject.

“Revenue Fund” -- the fund created by the Indenture and described under “The Indenture—Revenue Fund.”

“Revenues” -- (a) all Tolls received by or on behalf of the Commission from the System, (b) any other sources of revenues or funds of the Commission which the Commission chooses to include in the Trust Estate pursuant to a Supplemental Indenture, and (c) the interest and income earned on any fund or account where said interest or income is required to be credited to the Revenue Fund pursuant to the Indenture. As more fully provided by the provisions described below under “The Indenture—Revenue Fund; Agreements with Other Turnpikes,” in the event the Commission receives advances or prepayments or otherwise operates or participates in a system in which funds are collected prior to the actual usage of the System, such funds shall not be deemed to be Revenues until the usage occurs or the funds are earned pursuant to the agreement under which the Commission receives such funds.

“S&P” -- Standard & Poor's, a division of McGraw-Hill, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Commission.

“Secured Owner” -- each Person who is a Bondholder of any Bonds, each Parity Swap Agreement Counterparty providing a Parity Swap Agreement, each Bank providing a Credit Facility and each Bond Insurer providing a bond insurance policy with respect to a Parity Obligation.

“Securities Depository” -- a Person that is registered as a clearing agency under Section 17A of the Securities Exchange Act of 1934 or whose business is confined to the performance of the functions of a clearing agency with respect to exempted securities, as defined in Section 3(a)(12) of such Act for the purposes of Section 17A thereof.

“Series” -- one or more Bonds issued at the same time, or sharing some other common term or characteristic, and designated as a separate series of Bonds.

“Short-Term Indebtedness” -- all Indebtedness which matures in less than 365 days and is designated as Short-Term Indebtedness pursuant to the provisions described under “The Indenture—Limitation on Issuance of Additional Bonds and Execution of Swap Agreements.” In the event a Bank has extended a line of credit or the Commission has undertaken a commercial paper or similar program, only amounts actually borrowed under such line of credit or program and repayable in less than 365 days shall be considered Short-Term Indebtedness and the full amount of such commitment or program shall not be treated as Short-Term Indebtedness to the extent that such facility remains undrawn.

“Special Record Date” -- the date or dates specified in a Supplemental Indenture with respect to Additional Bonds issued under such Supplemental Indenture.

“Subordinated Indebtedness” -- Indebtedness incurred pursuant to the provisions described under “The Indenture—Limitation on Issuance of Additional Bonds and Execution of Swap Agreements—Subordinated Indebtedness.”

“Supplemental Indenture” -- any supplemental indenture to (a) the Indenture, now or hereafter duly authorized and entered into in accordance with the provisions of the Indenture described under “The Indenture—Supplemental Indentures” and (b) the Prior Indenture, including any supplemental indenture pursuant to which (and only for so long as) bonds are outstanding thereunder.

“Swap Agreement” -- shall have the meaning set forth under the heading “The Indenture--Approved and Parity Swap Obligations.”

“System” -- what are commonly referred to as the “Main Line” of the Commission and the “Northeast Extension” and any other roads for which the Commission has operational responsibility and is collecting Tolls, unless the Commission identifies such roads in a writing addressed to the Trustee (other than the Main Line and the Northeast Extension) as not being part of the System for the purposes of the Indenture.

“Tender Indebtedness” -- any Indebtedness or portion thereof:

(a) the terms of which include (i) an option or an obligation on the part of the Secured Owner to tender all or a portion of such Indebtedness to the Commission, the Trustee, the Paying Agent or another fiduciary or agent for payment or purchase and (ii) a requirement on the part of the Commission to purchase or cause to be purchased such Indebtedness or portion thereof if properly presented; and

(b) which is rated in either (i) one of the two highest long-term Rating Categories by the Rating Agency or (ii) the highest short-term, note or commercial paper Rating Category by the Rating Agency.

“Tolls” -- all rates, rents, fees, charges, fines or other income derived by the Commission from vehicular usage of the System, and all rights to receive the same.

“Trust Estate” -- (i) all Revenues as defined in the Indenture, (ii) all monies deposited into accounts or funds created by the Indenture and held by or on behalf of the Trustee (other than the Rebate Fund), (iii) any insurance proceeds and other moneys required to be deposited in the Indenture, (iv) all payments received by the Commission pursuant to Parity Swap Agreements, and (v) all investment earnings on all moneys held in accounts and funds established by the Indenture, other than the Rebate Fund.

“Trustee” -- the Trustee at the time in question, whether the initial Trustee or a successor.

“U.S.” -- United States of America.

“Variable Rate Indebtedness” -- any Indebtedness the interest rate on which fluctuates from time to time subsequent to the time of incurrence. Variable Rate Indebtedness may include, without limitation, (a) “auction rate” Indebtedness, that is, Variable Rate Indebtedness (i) the interest rate applicable to which (after an initial period following the issuance thereof or the conversion thereof to such an interest rate mode) is reset from time to time through an auction or bidding system and (ii) which the Commission has no obligation to repurchase in connection with the resetting of the interest rate applicable thereto except to the extent proceeds are available for such purpose either from the remarketing of such Variable Rate Indebtedness or from such other sources as identified in the Supplemental Indenture pursuant to which such Variable Rate Indebtedness was issued, (b) Tender Indebtedness, (c) commercial paper Indebtedness which is intended to be reissued and refinanced periodically, or (d) other forms of Indebtedness on which the interest fluctuates or is subject to being set or reset from time to time.

## **THE INDENTURE**

### **LIMITED OBLIGATIONS**

The Bonds shall be limited obligations of the Commission, payable solely from the Trust Estate. The Bonds shall constitute a valid claim of the respective owners thereof against the Trust Estate, which is pledged to secure the payment of the principal of, redemption premium, if any, and interest on the Bonds, and which shall be utilized for no other purpose, except as expressly authorized in the Indenture. The Bonds shall not constitute general obligations of the Commission and under no circumstances shall the Bonds be payable from, nor shall the holders thereof have any rightful claim to, any income, revenues, funds or assets of the Commission other than those pledged under the Indenture as security for the payment of the Bonds.

### **PAYMENT ON BONDS**

The principal of, premium, if any, and interest on the Bonds shall be payable in any currency of the U.S. which, on the respective dates of payment thereof, is legal tender for the payment of public and private debts. The principal of all Bonds shall be payable at the designated trust office of the Trustee, and payment of the interest on each Bond shall be made on each Interest Payment Date to the Person appearing on the registration books of the Bond Registrar as of the Record Date as the registered owner thereof, by check or draft mailed to such registered owner at his address as it appears on such registration books. However, if and to the extent that the Commission defaults on the payment of interest due on an Interest Payment Date, such defaulted interest shall be paid to those Persons who are the registered owners as of the Special Record Date on a payment date established by the Trustee, notice of which shall have been mailed to those Persons who are the

registered owners as of the Special Record Date on such date or dates established in the Supplemental Indenture under which such Bonds are issued.

## **REGISTRATION OF TRANSFER AND EXCHANGE OF BONDS; PERSONS TREATED AS BONDHOLDERS**

The Trustee shall act as initial bond registrar (the “Bond Registrar”) and in such capacity shall maintain a bond register (the “Bond Register”) for the registration and transfer of Bonds. Upon surrender of any Bonds at the designated office of the Trustee, together with an assignment duly executed by the current Bondholder of such Bonds or such Bondholder’s duly authorized attorney or legal representative in such form as shall be satisfactory to the Trustee, such Bonds may, at the option of the Bondholder, be exchanged for an equal aggregate principal amount of Bonds of the same series and maturity, of Authorized Denominations and bearing interest at the same rate and in the same form as the Bonds surrendered for exchange, registered in the name or names designated on the assignment; provided the Trustee is not required to exchange or register the transfer of Bonds after the giving of notice calling such Bond for redemption, in whole or in part. The Commission shall execute and the Trustee shall authenticate any Bonds whose execution and authentication is necessary to provide for exchange of Bonds pursuant to this Section and the Commission may rely on a representation from the Trustee that such execution is required.

The Trustee may make a charge to any Bondholder requesting such exchange or registration in the amount of any tax or other governmental charge required to be paid with respect thereto and the Commission may charge such amount as it deems appropriate for each new Bond delivered upon such exchange or transfer, which charge or charges shall be paid before any new Bond shall be delivered.

Prior to due presentment for registration of transfer of any Bond, the Trustee shall treat the Person shown on the Bond Register as owning a Bond as the Bondholder and the Person exclusively entitled to payment of principal thereof, redemption premium, if any, and interest thereon and, except as otherwise expressly provided in the Indenture, the exercise of all other rights and powers of the owner thereof, and neither the Commission, the Trustee nor any agent of the Commission or the Trustee shall be affected by notice to the contrary.

## **SECURITIES DEPOSITORY PROVISIONS**

Unless otherwise provided in a Supplemental Indenture, all Bonds shall be Book Entry Bonds. All Book Entry Bonds shall be registered in the name of Cede & Co., as nominee of DTC or any successor Securities Depository.

## **ADDITIONAL BONDS**

The Commission agrees in the Indenture that it will not issue or incur any other Indebtedness having a parity lien on the Trust Estate except for Additional Bonds issued pursuant to the provisions described below and other Parity Obligations. Additional Bonds may be issued and the Trustee shall authenticate and deliver such Additional Bonds when there have been filed with the Trustee the following:

(a) A copy certified by a Commission Official of the resolution or resolutions of the Commission authorizing (1) the execution and delivery of a Supplemental Indenture providing for, among other things, the date, rate or rates of interest on, interest payment dates, maturity dates and redemption provisions of such Additional Bonds, and (2) the issuance, sale, execution and delivery of the Additional Bonds;

(b) An original executed counterpart of the Supplemental Indenture;

(c) An opinion or opinions of Bond Counsel, addressed to the Commission and the Trustee, to the effect that (1) issuance of the Additional Bonds is permitted under the Indenture, (2) each of the Supplemental Indenture and the Additional Bonds has been duly authorized, executed and delivered and is a valid, binding and enforceable obligation of the Commission, subject to bankruptcy, equitable principles and other standard legal opinion exceptions and (3) subject to the last paragraph of this Section, interest on the Additional Bonds is not included in gross income for federal income tax purposes under the Code;

(d) A request and authorization of the Commission, signed by a Commission Official, to the Trustee to authenticate and deliver the Additional Bonds to such Person or persons named therein after confirmation of payment to the Trustee for the account of the Commission of a specified sum (which may include directions as to the disposition of such of such sum);

(e) A certificate of the Commission, signed by a Commission Official, that the Commission is not in default under the Indenture and evidence satisfactory to the Trustee that, upon issuance of the Additional Bonds, amounts will be deposited in the Funds under the Indenture adequate for the necessary balances therein after issuance of the Additional Bonds (including an amount sufficient to satisfy the Debt Service Reserve Requirement if the Additional Bonds constitute Debt Service Reserve Fund Bonds);

(f) A certificate of the Commission, signed by a Commission Official, identifying the Additional Bonds as Short-Term Indebtedness, Long-Term Indebtedness or Subordinated Indebtedness and demonstrating with reasonable detail that the applicable Indenture provisions described under “Covenants of the Commission -- Limitations on Issuance of Additional Bonds and Execution of Swap Agreements” have been met for the issuance of such Additional Bonds; and

(g) Such further documents, moneys and securities as are required by the provisions of the Supplemental Indenture.

Anything in the Indenture to the contrary notwithstanding, Additional Bonds may bear interest which is included in gross income for federal income tax purposes under the Code, in which event provisions in the Indenture requiring or referencing the exclusion of interest on Bonds of gross income for federal income tax purposes may be ignored or modified, as appropriate, as set forth in an opinion of Bond Counsel.

#### **APPROVED AND PARITY SWAP OBLIGATIONS**

The Commission may enter into one or more contracts having an interest rate, currency, cash-flow, or other basis desired by the Commission (a “Swap Agreement”), including, without limitation, interest rate swap agreements, currency swap agreements, forward payment conversion agreements, futures contracts, contracts providing for payments based on levels of or changes in interest rates, currency exchange rates, stock or other indices, or contracts to exchange cash flows or a series of payments, and contracts including, without limitation, interest rate floors or caps, options, puts or calls to hedge payment, currency rate, spread or similar exposure. In the event the Commission wishes the payments to be made and received by the Commission under the Swap Agreement to be taken into account in any calculation of Annual Debt Service under the Indenture, the Commission shall file with the Trustee the following on or before entering into the Swap Agreement (in which event such Swap Agreement shall constitute an “Approved Swap Agreement”):

(a) A copy certified by a Commission Official of the resolution or resolutions of the Commission authorizing the execution and delivery of the Swap Agreement (no Supplemental Indenture being required unless the Commission determines it to be necessary or appropriate);

(b) An original executed counterpart of the Swap Agreement;

(c) An opinion of Bond Counsel addressed to the Commission and to the Trustee, to the effect that execution of the Swap Agreement is permitted under the laws of the Commonwealth and will not adversely affect the exclusion from gross income from interest on any Bonds for federal income tax purposes; provided that if the Swap Agreement relates to Bonds being issued and the Swap Agreement is entered into prior to the issuance of such Bonds, the portion of the opinion of Bond Counsel referring to tax-exempt status of the Bonds need not be delivered until such Bonds are issued;

(d) A certificate of the Commission, signed by a Commission Official, that the Commission is not under default under the Indenture;

(e) Evidence that the execution of the Swap Agreement will not result in a reduction or withdrawal of the rating then assigned to any Bonds by the Rating Agency;

(f) Evidence that the provisions of paragraph (d) under “Limitation on Issuance of Additional Bonds and Execution of Swap Agreements” have been met; and

(g) Such further documents as are required by the Swap Agreement or Bond Counsel.

In the event the Commission wishes to enter into an Approved Swap Agreement and to have its obligations thereunder be on parity with all Bonds and other Parity Obligations, it shall file with the Trustee the items set forth above, together with a supplemental indenture granting such parity position (in which event, such Swap Agreement shall constitute a “Parity Swap Agreement”). Upon entering into a Parity Swap Agreement, unless otherwise provided in the supplemental indenture, the Commission shall pay to the Trustee for deposit into the Interest Account the net amount payable, if any, to the Parity Swap Agreement Counterparty as if such amounts were additional amounts of interest due; and the Trustee shall pay on behalf of the Commission to the Parity Swap Agreement Counterparty, to the extent required under the Parity Swap Agreement, amounts deposited in the Interest Account. Net amounts received by the Commission or the Trustee from the counterparty pursuant to a Parity Swap Agreement shall be deposited to the credit of the Interest Account or to such other account as designated by a Commission Official.

Amounts paid by or to the Commission pursuant to Approved Swap Agreements which do not constitute Parity Swap Agreements shall not be required to be made through the Trustee as described in the preceding paragraph (but shall be taken into account in calculation of Annual Debt Service as provided in the definition of such term).

## **CONVERSIONS OF VARIABLE RATE INDEBTEDNESS TO FIXED RATE INDEBTEDNESS**

The Indenture provides that the Commission may convert Variable Rate Indebtedness to a fixed rate if permitted pursuant to the terms thereof and if the Commission was in compliance with the Rate Covenant for the most recently completed Fiscal Year. If the Commission did not meet the Rate Covenant for such Fiscal Year, the Commission must treat the proposed conversion as if it constituted the issuance of Additional Bonds by meeting the requirements set forth in paragraph (b) below under “Covenants of the Commission -- Limitation on Issuance of Additional Bonds and Execution of Swap Agreements” (computing the Annual Debt Service with respect to such Variable Rate Indebtedness proposed to be converted as bearing interest at the Bond Buyer Index or such other rate as identified by a Financial Consultant as being more appropriate under the circumstances).

## **REDEMPTION OF BONDS**

The Bonds of any Series issued under the provisions of the Indenture shall be subject to redemption, in whole or in part, and at such times and prices as may be provided in the Supplemental Indenture pursuant to which such Bonds are issued.

If less than all of the Bonds are called for redemption, they shall be redeemed in such order of maturity as provided in the Supplemental Indenture, and by lot within any maturity (provided, however, that if an Event of Default has occurred and is continuing, any Bonds called for redemption shall be redeemed in proportion by maturity and within maturities by lot), subject to selection by the Trustee as provided below. The portion of any Bond to be redeemed shall be an Authorized Denomination or any multiple thereof and in selecting Bonds for redemption, each Bond shall be considered as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by the minimum Authorized Denomination. If a portion of a Bond shall be called for redemption, a new Bond in principal amount equal to the unredeemed portion thereof shall be issued to the Bondholder upon the surrender thereof. If for any reason the principal amount of Bonds called for redemption would result in a redemption of Bonds less than the Authorized Denomination, the Trustee, to the extent possible within the principal amount of Bonds to be redeemed, is hereby authorized to adjust the selection of Bonds for such purpose in order to minimize any such redemption. Notwithstanding the foregoing, the Securities Depository for Book Entry Bonds shall select the Bonds for redemption within particular maturities according to its stated procedures.

## **NOTICE OF REDEMPTION**

(a) When Bonds (or portions thereof) are to be redeemed, the Commission shall give or cause to be given notice of the redemption of the Bonds to the Trustee no later than 15 days prior to the last date on which notice of such redemption can be given or such shorter time as may be acceptable to the Trustee. In the case of an optional redemption, the notice may state (1) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Trustee no later than the redemption date or (2) that the Commission retains the right to rescind such notice at any time prior to the scheduled redemption date if the Commission delivers a certificate of a Commission Official to the Trustee instructing the Trustee to rescind the redemption notice (in either case, a “Conditional Redemption”), and such notice and optional redemption shall be of no effect if such moneys are not so deposited or if the notice is rescinded as described in paragraph (d) below.

The Trustee, at the expense of the Commission, shall send notice of any redemption, identifying the Bonds to be redeemed, the redemption date and the method and place of payment and the information required by paragraph (b) below, by first class mail to each holder of a Bond called for redemption to the holder's address listed on the Bond Register. Such notice shall be sent by the Trustee by first class mail between 30 and 60 days prior to the scheduled redemption date unless a different time period is provided in the Supplemental Indenture for such Bonds. With respect to Book Entry Bonds, if the Trustee sends notice of redemption to the Securities Depository pursuant to the Letter of Representations, the Trustee shall not be required to give the notice set forth in the immediately preceding sentence. If notice is given as stated in this paragraph (a), failure of any Bondholder to receive such notice, or any defect in the notice, shall not affect the redemption or the validity of the proceedings for the redemption of the Bonds.

(b) In addition to the foregoing, the redemption notice shall contain with respect to each Bond being redeemed, (1) the CUSIP number, (2) the date of issue, (3) the interest rate, (4) the maturity date, and (5) any other descriptive information determined by the Trustee to be needed to identify the Bonds. If a redemption is a Conditional Redemption, the notice shall so state. The Trustee also shall send each notice of redemption to (i) any Rating Service then rating the Bonds to be redeemed; (ii) all of the registered clearing agencies known to the Trustee to be in the business of holding substantial amounts of bonds of a type similar to the Bonds; and (iii) one or more national information services that disseminate notices of redemption of bonds such as the Bonds, such services to be identified by the Trustee.

(c) On or before the date fixed for redemption, subject to the provisions of paragraphs (a) and (d), moneys shall be deposited with the Trustee to pay the principal of, redemption premium, if any, and interest accrued to the

redemption date on the Bonds called for redemption. Upon the deposit of such moneys, unless the Commission has given notice of rescission as described in paragraph (d), the Bonds shall cease to bear interest on the redemption date and shall no longer be entitled to the benefits of the Indenture (other than for payment and transfer and exchange) and shall no longer be considered Outstanding.

(d) Any Conditional Redemption may be rescinded in whole or in part at any time prior to the redemption date if the Commission delivers a certificate of a Commission Official to the Trustee instructing the Trustee to rescind the redemption notice. The Trustee shall give prompt notice of such rescission to the affected Bondholders. Any Bonds subject to Conditional Redemption where redemption has been rescinded shall remain Outstanding, and the rescission shall not constitute an Event of Default. Further, in the case of a Conditional Redemption, the failure of the Commission to make funds available in part or in whole on or before the redemption date shall not constitute an Event of Default.

## **CONSTRUCTION FUND**

The Indenture creates a special fund known as the "Construction Fund", which shall be held in trust by the Trustee. Money shall be deposited to the Construction Fund pursuant to the provisions of the Indenture and from any other sources identified by the Commission. Payment of the costs of the construction portion of any Project shall be made from the Construction Fund. A special account shall be created and identified for each such construction project, although funds, at the written direction of the Commission, may be transferred from one such account in the Construction Fund to another account in such Fund. Moneys in the Construction Fund may be disbursed by the Trustee to the Commission upon the filing by the Commission of a requisition, signed by the Chief Engineer (or his designee) and a Commission Official meeting the requirements of the Indenture.

If at any time a Commission Official shall file with the Trustee a certificate stating that the cost of a Project has been finally determined and that the funds remaining in the account established for such Project exceed the remaining costs of the Project, then an amount equal to such excess shall be transferred to such fund or account as directed in the certificate, provided the same is accompanied by an opinion of Bond Counsel to the effect that such transfer or and/or application will not adversely effect the tax-exempt status of the interest of the applicable Bonds.

A 2006 Account of the Construction Fund is being created for the purpose of depositing and disbursing proceeds of the 2006 Bonds.

## **RATE COVENANT**

The Indenture contains the Rate Covenant pursuant to which the Commission covenants that at all times it will establish and maintain schedules of Tolls for traffic over the System so that the Net Revenues of the System in each Fiscal Year will at all times be at least sufficient to provide funds in an amount not less than (1) the greater of:

(i) one hundred thirty percent (130%) of the Annual Debt Service for such Fiscal Year on account of all Applicable Long-Term Indebtedness then outstanding under the provisions of the Indenture; or

(ii) one hundred percent (100%) of the Maximum Annual Debt Service on all Applicable Long-Term Indebtedness, plus (i) the amount of required transfers from the Revenue Fund to the credit of the Reserve Maintenance Fund pursuant to the Annual Capital Budget, and (ii) an amount sufficient to restore any deficiency in the Debt Service Reserve Fund within an eighteen (18) month period;

plus (2) the amount of any Short-Term Indebtedness outstanding pursuant to Section 703(a) of the Indenture and described below under "—Covenants of the Commission--Limitations on Issuance of Additional Bonds and Execution of Approved Swaps--Short-Term Indebtedness" for more than 365 consecutive days.

In addition, the amount of Net Revenues in excess of the sum of the amounts set forth in clauses (1) and (2), together with Other Revenues pledged to the payment of Subordinated Indebtedness, shall be sufficient to pay the Annual Debt Service for any Subordinated Indebtedness.

The foregoing covenant is referred to in the Indenture as the "Rate Covenant".

The Commission's failure to meet the Rate Covenant shall not constitute an Event of Default under the Indenture if (1) no Event of Default described in paragraphs (a) or (b) under "Events of Default" occurred as a result of such failure and (2) the Commission promptly after determining that the Rate Covenant was not met retains a Consultant at the expense of the Commission to make written recommendations as to appropriate revisions to the schedules of Tolls necessary or appropriate to meet the Rate Covenant and advises the Trustee in writing of such retention. Anything in the Indenture to the contrary notwithstanding, if the Commission shall comply with the recommendations of the Consultant in respect of Tolls, it will not constitute an Event of Default under the provisions of the Indenture if the Commission fails to meet the Rate Covenant during the succeeding Fiscal Year as long as no Event of Default described in paragraphs (a) or (b) under "Events of Default" has occurred. If the Commission does not comply with the recommendations of the Consultant in respect of Tolls, the Trustee

may, and upon the request of the holders of not less than twenty-five per centum (25%) in principal amount of the Bonds then outstanding and upon being indemnified to its satisfaction shall, institute and prosecute in a court of competent jurisdiction any appropriate action to compel the Commission to revise the schedules of Tolls. The Commission covenants in the Indenture that it will adopt and charge Tolls in compliance with any final order or decree entered in any such proceeding.

In the event that the Consultant shall fail to file with the Commission such recommendations in writing within sixty (60) days after its retention by the Commission, the Trustee may designate and appoint a different Consultant at the expense of the Commission to make recommendations as to an adjustment of the schedules of Tolls, which recommendations shall be reported in writing to the Commission and to the Trustee within sixty (60) days after such retention. Such written report shall for all purposes be considered to be the equivalent of and substitute for the recommendations of the Consultant retained by the Commission.

In preparing its recommendations, the Consultant may rely upon written estimates of Revenues prepared by the other Consultants of the Commission. Copies of such written estimates signed by such Consultants shall be attached to such recommendations. The Commission covenants in the Indenture that promptly after receipt of such recommendations and the adoption of any revised schedules of Tolls, certified copies thereof will be filed with the Trustee.

## **COVENANTS AS TO TOLLS**

The Commission covenants in the Indenture that Tolls will be classified in a reasonable way to cover all traffic, so that the Tolls may be uniform in application to all traffic falling within any reasonable class regardless of the status or character of any Person participating in the traffic; provided that the foregoing shall not be interpreted to restrict the Commission's right, in its discretion in connection with its management of the System, to establish and maintain flexible Toll schedules including, but not limited to, provisions for, utilizing or otherwise taking into account, peak and nonpeak pricing, introductory pricing, weight, method of payment, frequency, carpooling, electronic and other Toll collection technologies, traffic management systems, and similar classifications.

Any change in classification which results in a reduced Toll or any new classification shall be reviewed by the Commission with a Consultant before implementing the same unless the same is temporary (e.g., having a duration of less than one year). In addition, in the event the Commission did not meet the Rate Covenant for the preceding Fiscal Year, any classification resulting in a reduced Toll or a new classification shall be subject to a Consultant approving the same before it is implemented. In all events, the Commission shall not make a change in classification or any new classification which would cause the Commission to fail to meet the Rate Covenant.

The Commission further covenants in the Indenture that it shall not grant free passage or reduced tolls within a class, except, in its discretion, it may do so:

- (1) Through the use of commutation or other tickets or privileges based upon frequency or volume,
- (2) For operational or safety reasons including, but not limited to, reasons arising out of a work stoppage, work slowdown or work action,
- (3) To members, officers and employees of the Commission in the discharge of their official duties,
- (4) For use by the Army, Air Force, Navy, Coast Guard, Marine Corps or militia or any branch thereof in time of war or other emergency,
- (5) For use by the Pennsylvania State Police or by consultants, contractors or agents of the Commission where the Toll ultimately will be repaid directly or indirectly by the Commission.

Any reduced Toll or grant of free passage shall be reviewed by the Commission with a Consultant before implementing the same unless the same is temporary (e.g., having a duration of less than one year). In addition, in the event the Commission did not meet the Rate Covenant for the preceding Fiscal Year, any reduced Toll or free passage shall be subject to a Consultant approving the same before it is implemented by the Commission unless the circumstances require immediate implementation, in which event the Commission shall obtain such approval promptly following implementation. In all events, the Commission shall not reduce Tolls or grant free passage if it would cause the Commission to fail to meet the Rate Covenant.

The Commission's covenant as to uniformity of tolls shall not be construed as requiring that Tolls for any given class of traffic shall be identical in amount throughout the entire System for trips of approximately identical lengths. The Commission may fix and place in effect schedules of Tolls for any given class of traffic wherein the Tolls charged for travel on a given section of the System shall be different from the Tolls charged on another section of the System notwithstanding the fact that both of said sections shall be of identical or approximately identical length.

## COVENANTS OF COMMISSION

In addition to the Rate Covenant and covenants as to tolls described above, in the Indenture the Commission also makes various other covenants, including the following covenants:

*Payment of Principal, Interest and Premium.* The Commission covenants in the Indenture that it will promptly pay the principal of, premium, if any, and the interest on every Bond issued under the provisions of the Indenture at the places, on the dates and in the manner provided in the Indenture and in said Bonds. Except as otherwise provided in the Indenture, the principal, interest and premium are payable solely from Revenues, which Revenues are hereby pledged to the payment thereof in the manner and to the extent provided in the Indenture. Neither the general credit of the Commission nor the general credit nor the taxing power of the Commonwealth or any political subdivision, agency or instrumentality thereof is pledged for the payment of the Bonds.

*Annual Operating Budget; Capital Budget.* The Commission covenants in the Indenture that on or before the 31st day of May (or such other date as is consistent with the Commission's policies then in effect) in each Fiscal Year it will adopt a budget for the ensuing Fiscal Year (the "Annual Operating Budget"). Copies of each Annual Operating Budget shall be provided to the Trustee. Prior to adopting the Operating Budget, the Commission shall provide a draft of such budget to the Consulting Engineer sufficiently in advance of the adoption of such Annual Operating Budget in order for the Consulting Engineer to provide comments before such adoption. The Commission further covenants in the Indenture that it will prepare each such Annual Operating Budget on the basis of monthly requirements, so that it will be possible to determine the Current Expenses for each month during the Fiscal Year.

If for any reason the Commission shall not have adopted the Annual Operating Budget before the first day of any Fiscal Year, the budget for the preceding Fiscal Year, shall, until the adoption of the Annual Operating Budget, be deemed to be in force and shall be treated as the Annual Operating Budget under the provisions of this Article.

The Commission may adopt an amended or supplemental Annual Operating Budget at any time for the remainder of the then current Fiscal Year. Copies of any such amended or supplemental Annual Operating Budget shall be provided to the Trustee.

The Commission further covenants in the Indenture that it will adopt a capital budget (the "Annual Capital Budget") on or before May 31st of each Fiscal Year. The Annual Capital Budget will detail the Commission's planned capital expenditures over a period of up to 10 years and the portion of capital expenditures expected to be funded from the Reserve Maintenance Fund. The Annual Capital Budget shall include the expected beginning balance in the Reserve Maintenance Fund, the amounts to be transferred by the Trustee to the Reserve Maintenance Fund from the General Reserve Fund, the amount of bond proceeds expected to become available during the Fiscal Year, the amounts expected to be transferred monthly by the Trustee from the Revenue Fund, and the desired year-end balance in the Reserve Maintenance Fund. Prior to adopting the Annual Capital Budget, the Commission shall provide a draft of the capital budget to the Consulting Engineer a sufficient time in advance of the Commission's adoption of the Annual Capital Budget in order for the Consulting Engineer to provide comments before the date of such adoption. The Commission may adopt amendments or supplements to the Annual Capital Budget at any time. Copies of the Annual Capital Budget shall be made available to the Trustee.

*Limitations on Issuance of Additional Bonds and Execution of Approved Swaps.* The Commission makes the following covenants in the Indenture with respect to issuance of Additional Bonds and execution of Approved Swap Agreements:

Short-Term Indebtedness: The Commission agrees that it will not issue any Additional Bonds constituting Short-Term Indebtedness unless (1) immediately after the incurrence of such Short-Term Indebtedness, the outstanding principal amount of all Short-Term Indebtedness issued pursuant to this subsection does not exceed 30% of the Revenues for the most recent Fiscal Year for which audited financial statements are available; and (2) for a period of not fewer than seven consecutive days within each Fiscal Year, commencing with the Fiscal Year following the issuance of such Short-Term Indebtedness, the aggregate principal amount of all outstanding Short-Term Indebtedness described in this subsection is reduced to less than 5% of the Revenues for the immediately preceding Fiscal Year for which audited financial statements are available. Short-Term Indebtedness issued pursuant to this subsection will be on a parity with other Additional Bonds.

Long-Term Indebtedness: The Commission agrees that it will not issue any Additional Bonds constituting Long-Term Indebtedness unless prior to or contemporaneously with the incurrence thereof, the provisions of the Indenture described above under "Additional Bonds" are met and there is delivered to the Trustee:

- (1) a certificate of a Commission Official certifying that the Historical Pro Forma Debt Service Coverage Ratio for the most recent Fiscal Year preceding the delivery of such certificate for which audited financial statements are available was not less than 1.75; or



(2) a report of a Consultant to the effect that (i) the Net Revenues of the Commission during the preceding Fiscal Year were at least 130% of the Maximum Annual Debt Service on all Applicable Long-Term Indebtedness then Outstanding and on any Applicable Long-Term Indebtedness proposed to be issued (which report may assume any revisions of the Tolls which have been approved by the Commission subsequent to the beginning of such Fiscal Year were in effect for the entire Fiscal Year), and (ii) the Projected Debt Service Coverage Ratio is not less than 1.30; or

(3) If the Long-Term Indebtedness is being incurred solely for the purposes of refunding, repurchasing or refinancing (whether in advance or otherwise) any outstanding Long-Term Indebtedness, a certificate of a Commission Official certifying the Maximum Annual Debt Service on all Applicable Long-Term Indebtedness prior to the issuance of the proposed Long-Term Indebtedness is greater than the Maximum Annual Debt Service on all Applicable Long-Term Indebtedness after the issuance of such proposed Long-Term Indebtedness.

Subordinated Indebtedness: The Commission may incur Indebtedness (hereinafter referred to as “Subordinated Indebtedness”) without limit which is subordinated and junior in all respects to payment of all Bonds and other Parity Obligations incurred under the Indenture so that the same is payable as to principal and interest once all other payments have been made under the Indenture from the amounts on deposit to the credit of the General Reserve Fund as long as prior to or contemporaneously with the incurrence thereof, there is delivered to the Trustee:

(1) a certificate of a Commission Official certifying that the Rate Covenant would have been met during the preceding Fiscal Year taking into account the Maximum Annual Debt Service on such Subordinated Indebtedness, and

(2) the other items listed in Section 210 (as the same may be modified to reflect the fact that such Indebtedness is Subordinated Indebtedness).

Such Subordinated Indebtedness and the payment thereof may be secured by a lien and pledge (a) subordinate to that of the Bonds on the Revenues or (b) prior to, on a parity with or subordinate to, the Bonds on Other Revenues, in which event the Commission and the Trustee may establish such other accounts under the Indenture as they deem necessary or appropriate.

Approved Swap Agreements: The Commission agrees that it will not enter into any Approved Swap Agreement unless prior to or contemporaneously with the incurrence thereof, the provisions described above under “Approved and Parity Swap Obligations” are met and there is delivered to the Trustee one of the certificates or reports required in subsection (b) above, which takes into account the expected payments by and to the Commission pursuant to such Approved Swap Agreement in calculating Annual Debt Service.

*Use and Operation of System.* The Commission covenants in the Indenture that

(a) it will maintain and operate the System in an efficient and economical manner,

(b) it will maintain the System in good repair and will make all necessary repairs, renewals and replacements, to the extent funds are available therefor under the Indenture, and

(c) it will comply with laws and all rules, regulations, orders and directions of any legislative, executive, administrative or judicial body applicable to such System, subject to the right of the Commission to contest the same in good faith and by appropriate legal proceedings.

*Inspection of the System.* The Commission shall make arrangements for the System to be inspected at least once every three years by engaging one or more Consultants to conduct the actual inspections and to prepare a report. Such report shall state (a) whether the System has been maintained in good repair, working order and condition since the last inspection report pursuant to this Section and (b) any recommendations which such Consultants may have as to revisions or additions to the Commission's Annual Capital Budget. Copies of such reports shall be filed with the Trustee.

*Construction of Projects.* The Commission covenants in the Indenture that:

(a) it will proceed with diligence to construct any Projects in conformity with law and all requirements of all governmental authorities having jurisdiction thereover.

(b) before entering into any construction contract it will secure the approval of the plans and specifications for such contract by a certified engineer or architect, who may be an employee of the Commission, and that it will require each Person, firm or corporation with whom it may contract in connection with the construction of any Project to furnish (1) a performance bond for 100% of the contract amount, and (2) a payment bond for 100% of the contract amount. Each of such bonds shall be executed by one or more responsible surety companies authorized to do business in the Commonwealth. Any proceeds received from such bonds first shall be applied toward the completion of the applicable Project and second shall be deposited in the General Reserve Fund.

(c) construction contracts for labor and/or materials also shall provide that payments thereunder shall not be made by the Commission in excess of 95% of current estimates except that once the work is at least 50% complete, such retainage may be reduced by the Chief Engineer or another Commission Official to the extent such officer deems such reduction to be necessary or appropriate.

(d) the Commission shall involve the Consulting Engineer or another Consultant to assist in quality assurance matters in connection with design and/or construction of any Project or portion thereof to the extent the Commission determines necessary or appropriate. For purposes of this subsection, "quality assurance" shall be defined to mean those activities, from inception to completion of a Project, which are necessary to ensure that the processes are in place to produce a quality product.

*Employment of Consulting Engineers.* The Commission covenants in the Indenture to employ an independent engineer or engineering firm or corporation having a national reputation for skill and experience in such work to perform any functions of the Consulting Engineer under the Indenture.

*Insurance.* The Commission covenants in the Indenture that it will keep the System and its use and operation thereof insured (including through self-insurance) at all times in such amounts, subject to such exceptions and deductibles and against such risks, as are customary for similar organizations. All insurance policies shall be carried with a responsible insurance company or companies authorized to do business in the Commonwealth or shall be provided under a self-insurance program; any self-insurance program shall be actuarially sound in the written opinion of an accredited actuary, which opinion shall be filed with the Trustee at least annually. At any time and from time to time, the Commission may elect to terminate self-insurance of a given type. Upon making such election, the Commission shall, to the extent then deemed necessary by a Consultant, obtain and maintain comparable commercial insurance.

On July 1, 2003 and every three years thereafter (except with respect to self-insurance, which shall be annually), the Commission shall cause a Consultant to certify to the Trustee that (a) it has reviewed the adequacy of the Commission's insurance, listing the types and amounts of insurance, and (b) it finds such coverage to be reasonable and customary for similar organizations. If the Consultant concludes that coverage other than that which is currently carried by the Commission should be carried, the Commission shall obtain such insurance coverage unless it determines in good faith that it is unreasonable or uneconomical to obtain such coverage and certifies the same in writing to the Trustee.

All insurance policies maintained by the Commission shall be available at reasonable times for inspection by the Trustee, its agents and representatives.

The Commission covenants that it will take actions as it deems necessary to demand, collect and sue for any proceeds that may become due and payable to it under any policy

*Damage or Destruction.* Immediately after any damage to or destruction of any part of the System which materially adversely affects the Revenues of the Commission, the Commission will promptly take action to repair, reconstruct or replace the damaged or destroyed property or to otherwise ameliorate the adverse impact on Revenues.

*Annual Audit.* The Commission covenants in the Indenture that it will cause an annual audit to be made of its books and accounts of each Fiscal Year by an independent certified public accountant. A copy of such audit shall be filed with the Trustee promptly after the receipt by the Commission for such purpose.

*Encumbrance of Revenues; Sale, Lease or Other Disposition of Property.* The Commission covenants in the Indenture that so long as any Bonds are Outstanding under the Indenture,

(a) (1) it will not create or suffer to be created any lien or charge upon any Revenues, except the lien and charge of the Bonds secured hereby and any Subordinated Indebtedness permitted pursuant to the provisions of the Indenture; and (2) from such Revenues or other funds available under the Indenture, it will pay or cause to be discharged, or will make adequate provision to pay or discharge, within ninety (90) days after the same shall accrue, all lawful claims and demands for labor, materials or supplies which, if unpaid, might by law become a lien upon any Revenues; provided, however, that the Commission shall not be required to pay or discharge, or make provision for such payment or discharge of, any such lien or charge so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings.

(b) the Commission will not sell or otherwise dispose of any real estate or personal property comprising a portion of the System unless the Commission determines

(1) such property (i) has become obsolete or worn out or is reasonably expected to become so within one year after the date of such disposition, (ii) is no longer used or useful in the operation of the System or in the generation of Revenues or (iii) is to be or has been replaced by other property; or

(2) by resolution that such action will not materially adversely affect the Net Revenues of the Commission.

The Commission shall have the discretion to deposit the proceeds of such sale or disposition in a fund or account held under the Indenture or a Commission account held outside the Indenture, as it deems appropriate. In the event the Commission did not meet the Rate Covenant during the preceding Fiscal Year, however, then the Commission shall notify the Trustee of the sale or disposition of any property which generated Net Revenues in excess of one percent of the Commission's Net Revenues during the prior Fiscal Year and all proceeds from such sale or disposition shall be deposited in the Revenue Fund.

(c) the Commission will not lease any real estate or personal property comprising a portion of the System unless the Commission determines by resolution that such action will not materially adversely affect the Net Revenues of the Commission. The rental and other proceeds from any lease shall not be required to be deposited in the Revenue Fund unless the effect of such lease is to reduce Tolls.

Without intending to limit the foregoing, the Commission also may enter into contracts or other forms of agreement for the use of any real estate comprising a portion of the System including, but not limited to, rights of way for telephone, telegraph, optic fiber and other forms of communication, electric, gas transmission and other lines or facilities for utilities, and other uses which do not materially adversely affect the operation of the System and the payments received in connection with the same shall be deposited in such accounts (which may be outside the Indenture) as the Commission shall determine.

## **CREATION OF FUNDS**

In addition to the Construction Fund and any other funds created by Supplemental Indentures, the Indenture creates the following funds: Revenue Fund; Debt Service Fund; Debt Service Reserve Fund; Reserve Maintenance Fund; General Reserve Fund; and Rebate Fund. Amounts deposited therein shall be held in trust by the Trustee until applied as directed in the Indenture.

## **REVENUE FUND; AGREEMENTS WITH OTHER TURNPIKES**

The Commission covenants in the Indenture that all Revenues will be deposited daily, as far as practicable, with the Trustee or in the name of the Trustee with a Depositary or Depositaries, to the credit of the Revenue Fund.

The Indenture provides that, to the extent now or hereafter authorized by law, the Commission may enter into agreements with any commission, authority or other similar legal body operating a turnpike, whether or not connected to the System, (1) with respect to the establishment of combined schedules of Tolls and/or (2) for the collection and application of Tolls charged for trips over all or a portion of both turnpikes combined, which on the basis of the Revenues to be received by any such agreement will result in the receipt by the Commission of its allocable portion of such Tolls (less fees and expenses associated with such arrangement). To the extent now or hereafter authorized by law, the Commission also may enter into agreements with other Persons with respect to the collection of Tolls or advances or prepayment of Tolls charged for trips over all or a portion of the System, which on the basis of the Revenues to be received by any such agreement will result in the receipt by the Commission of the appropriate Tolls for such trips. Unless approved by a Consultant, no agreement establishing a combined schedule of Tolls shall restrict the ability of the Commission to implement an increase in its Tolls at least annually.

Amounts received by the Commission from such other commission, authority or other similar legal body or Person, in accordance with such agreements, shall be deposited in the Revenue Fund when they constitute Revenues. Such amounts may be held with one of the depositaries noted in Subsection 504(a) until they constitute Revenues. Amounts received by the Commission and deposited in the Revenue Fund which are payable by the Commission to such other commission, authority or other similar legal body or Person, in accordance with any such agreements, shall be withdrawn by the Trustee from the Revenue Fund upon delivery to the Trustee of a certificate of a Commission Official that such withdrawal is required pursuant to the terms of an agreement entered into pursuant to this Section and shall be paid by the Trustee in accordance with directions contained in such certificate. Any agreement entered into pursuant to this Section shall be made available to the Trustee upon its request.

Except as otherwise provided in the provisions described under this heading, transfers from the Revenue Fund shall be made to the following funds and in the following order of priority:

- (1) Rebate Fund;
- (2) Operating Account;
- (3) Debt Service Fund;
- (4) Reserve Maintenance Fund;
- (5) Debt Service Reserve Fund; and

(6) General Reserve Fund (after retaining such funds in the Revenue Fund as are identified in the certificate described below under "General Reserve Fund").

## **OPERATING ACCOUNT**

The Indenture provides that the Commission shall establish an account known as the "Operating Account" which shall be held by the Commission in the name of the Commission outside of the Indenture until applied as directed in the Indenture. The Trustee shall transfer from the Revenue Fund on or before the last Business Day of each month to the credit of the Operating Account an amount equal to (a) the amount shown by the Annual Operating Budget to be necessary to pay Current Expenses for the ensuing month and (b) an amount certified by a Commission Official as being reasonably necessary to pay Current Expenses which are expected for such month, after taking into account the amount on deposit in the Operating Account (including the amount described in clause (a)).

In making payments from the Operating Account, the Commission shall be deemed to be certifying that obligations in the stated amounts have been incurred by the Commission and that each item thereof was properly incurred in maintaining, repairing and operating the System, and has not been paid previously.

## **DEBT SERVICE FUND**

The Indenture creates two separate accounts in the Debt Service Fund to be known as the "Interest Account" and the "Principal Account."

The Trustee and the Commission may create such additional accounts in the Debt Service Fund pursuant to a Supplemental Indenture as they deem necessary or appropriate, including, but not limited to, (a) an account into which drawings on a Credit Facility are to be deposited and from which principal (including redemption price) and Purchase Price of and interest on the Series of Bonds secured by such Credit Facility are to be paid (and upon such payment, amounts on deposit in the Principal and Interest Accounts for such Bonds shall be used to repay the provider of the Credit Facility for such payments), and (b) an account into which payments to the Commission to any Parity Swap Counterparty are to be deposited and from which payments to such Parity Swap Counterparty are to be paid.

On or before the last Business Day preceding each Interest Payment Date or principal (or sinking fund redemption) date of each month or such other day as set forth in a Supplemental Indenture, after making the deposits to the Operating Account described above, the Trustee shall withdraw from the Revenue Fund and deposit to the applicable Account in the Debt Service Fund (or to a Series Credit Facility Fund in lieu of either of the foregoing) the amounts due on any Parity Obligation.

The moneys in the Interest and Principal Accounts shall be held by the Trustee in trust for the benefit of the Bonds, to the extent the foregoing are payable from such accounts, and, to said extent and pending application, shall be subject to a lien and charge in favor of the Owners of the Bonds until paid out or transferred as provided in the Indenture. There shall be withdrawn from the Interest Account (and any available capitalized interest) and the Principal Account from time to time and set aside or deposited with the Trustee sufficient money for paying the interest on and the principal of and premium on the Bonds as the same shall become due, except to the extent such interest, principal or other amounts are payable from a fund or account other than the Debt Service Fund as provided in any Supplemental Indenture.

If at the time the Trustee is required to make a withdrawal from the Debt Service Fund the moneys therein shall not be sufficient for such purpose, the Trustee shall withdraw the amount of such deficiency from the moneys on deposit in the following funds or accounts and transfer the same to the Debt Service Fund in the following order: the Debt Service Reserve Fund, the General Reserve Fund, and the Reserve Maintenance Fund.

A 2006 Account of the Debt Service Fund is being created for the purpose of depositing and disbursing funds for payment of debt service on the 2006 Bonds.

## **RESERVE MAINTENANCE FUND**

In each Fiscal Year, after first having made the deposits to the Revenue Fund, Operating Account and Debt Service Fund provided by the provisions described above, the Trustee shall transfer from the Revenue Fund on or before the last Business Day of each month to the credit of the Reserve Maintenance Fund the amount shown in the Annual Capital Budget for the ensuing month.

Except as provided above with respect to the Debt Service Fund, or except in case of an emergency, as characterized in a certificate signed by a Commission Official stating that the moneys to the credit of the Operating Account are insufficient to meet such emergency, moneys in the Reserve Maintenance Fund shall be disbursed to pay current capital expenditures shown in the Annual Capital Budget for the System, plus the cost of unusual or extraordinary maintenance (as determined solely by the Commission) and shall be disbursed only for such purposes, except to the extent provided in the Indenture. Such purposes shall include, but not be limited to, paying the cost of constructing, improving and reconstructing improvements and betterments to all parts of the System now or hereafter open to vehicular traffic, including, without limitation, additional lanes, tunnels, interchanges, toll plazas, bridges and connecting roads, transit interface facilities and any other improvements deemed necessary or desirable by the Commission.

Payments from the Reserve Maintenance Fund, except the transfers which the Trustee is authorized to make in this Section, shall be made pursuant to a requisition process which follows the process set forth in the Indenture applicable to payments from the Construction Fund.

The Trustee shall transfer any moneys from the Reserve Maintenance Fund to the credit of the General Reserve Fund from time to time upon the receipt of a certificate of a Commission Official certifying that the amount so to be transferred is not required for the purposes for which the Reserve Maintenance Fund has been created.

#### **DEBT SERVICE RESERVE FUND**

The Indenture establishes a Debt Service Reserve Fund and provides that a special account within the Debt Service Reserve Fund may be created with respect to each series of Debt Service Reserve Fund Bonds issued under the Indenture and any Supplemental Indenture.

In each Fiscal Year, after first having made the deposits to the Operating Account, Debt Service Fund and Reserve Maintenance Fund described above, the Trustee shall transfer from the Revenue Fund on or before the last day of each month to the credit of the Debt Service Reserve Fund (a) the amount, if any, required to make the amount on deposit in the Debt Service Reserve Fund equal to the Debt Service Reserve Requirement which restoration, as implied by the Rate Covenant, is intended to occur within eighteen (18) months; and (b) the amount set forth in a Supplemental Indenture if an amount different from the Debt Service Reserve Requirement is required.

To the extent accounts are created in the Debt Service Reserve Fund for Debt Service Reserve Fund Bonds, the funds and DSRF Security, as hereinafter defined, held therein shall be available to make payments required under the Indenture for the benefit of all Debt Service Reserve Fund Bonds.

Moneys held in the Debt Service Reserve Fund shall be used for the purpose of paying interest on, maturing principal and mandatory sinking fund redemption price of Debt Service Reserve Fund Bonds whenever and to the extent that the moneys held for the credit of the Debt Service Fund shall be insufficient for such purpose. If at any time the moneys and the principal amount of any DSRF Security held in the Debt Service Reserve Fund shall exceed the Debt Service Reserve Requirement, the Commission shall direct whether such excess moneys shall be transferred by the Trustee to the credit of the General Reserve Fund or used to reduce the principal amount of any DSRF Security.

In the event the Trustee shall be required to withdraw funds from the Debt Service Reserve Fund to restore a deficiency in the Debt Service Fund arising with respect to Debt Service Reserve Fund Bonds, the amount of such deficiency shall be allocated pro rata among such Bonds except to the extent provided in the last sentence of the next paragraph.

In lieu of the deposit of moneys into the Debt Service Reserve Fund, the Commission may cause to be provided a surety bond, an insurance policy, a letter of credit or similar financial instrument satisfactory to the Rating Agency (as evidenced by a letter from the Rating Agency confirming that the DSRF Security will not result in the rating on any outstanding Bonds being downgraded) (each, a "DSRF Security") payable to the Trustee for the benefit of the Bondholders in an amount equal to the difference between the Debt Service Reserve Requirement and the amounts then on deposit in the Debt Service Reserve Fund. The DSRF Security shall be payable (upon the giving of notice as required thereunder) on any Interest Payment Date on which moneys will be required to be withdrawn from the Debt Service Reserve Fund and applied to the payment of the principal of or interest on any Bonds to the extent that such withdrawals cannot be made by amounts on deposit in the Debt Service Reserve Fund.

If a disbursement is made pursuant to a DSRF Security, the Commission shall be obligated either (a) to reinstate the maximum limits of such DSRF Security or (b) to deposit into the Debt Service Reserve Fund, funds in the amount of the disbursement made under such DSRF Security, or a combination of such alternatives, as shall provide that the amount credited to the Debt Service Reserve Fund equals the Debt Service Reserve Requirement within a time period of eighteen (18) months.

If the DSRF Security shall cease to have a rating described in the second preceding paragraph, the Commission shall use reasonable efforts to replace such DSRF Security with one having the required rating, but shall not be obligated to pay, or commit to pay, increased fees, expenses or interest in connection with such replacement or to deposit Revenues in the Debt Service Reserve Fund in lieu of replacing such DSRF Security with another.

#### **GENERAL RESERVE FUND**

After first having made the deposits to the Operating Account, Debt Service Fund, Reserve Maintenance Fund and Debt Service Reserve Fund described above, the Trustee shall transfer from the Revenue Fund on or before the last Business Day of each year (or more frequently if the Commission determines that excess funds are on deposit in the Revenue Fund) to the credit of the General Reserve Fund the balance, if any, remaining after making such deposits and after reserving such amounts, if any, identified in a certificate of a Commission Official as being reserved for future transfers to the Debt Service Fund.

Moneys in the General Reserve Fund may be expended by the Commission to restore deficiencies in any funds or accounts created under the Indenture and, absent any such deficiency, for any of the following purposes, with no one item having priority over any of the others:

- (a) To purchase or redeem Bonds;
- (b) To secure and pay the principal or redemption price of and interest on any Subordinated Indebtedness;
- (c) To make payments into the Construction Fund;
- (d) To fund improvements, extensions and replacements of the System; or
- (e) To further any corporate purpose.

The Trustee is authorized to apply monies on deposit in the General Reserve Fund for any of such purposes upon receipt of a requisition signed by a Commission Official, stating in respect of each payment to be made:

- (a) the name of the Person, firm or corporation, to whom payment is to be made or, if the payment is to be made to a fund or account held by the Trustee under the Indenture or to a fund or account held by the Commission and not subject to the Indenture, the name of such fund or account,
- (b) the amount to be paid, and
- (c) the purpose for which the payment is to be made.

#### **REBATE FUND**

The Indenture authorizes the creation of a Rebate Fund. The Commission covenants in the Indenture to calculate and to pay directly to the government of the United States of America all amounts due for payment of “arbitrage rebate” under Section 148(f) of the Code with respect to any Bonds. Nevertheless, the Commission in the future may deposit with the Trustee or direct the Trustee to deposit in the Rebate Fund amounts held in any Fund under the Indenture for any or all Series of Bonds (which direction shall specify the procedures for collection and payment of amounts due in respect of arbitrage rebate) if (a) required under any amendments to Section 148(f) of the Code or (b) the Commission otherwise determines that the funding of the Rebate Fund is necessary or appropriate. The Rebate Fund is a trust fund but the amounts therein do not constitute part of the Trust Estate. Amounts on deposit in the Rebate Fund may be used solely to make payments to the United States of America under Section 148 of the Code and to pay costs related to the calculation of the amounts due. Upon satisfaction of the Commission’s covenants described above, any amounts remaining in the Rebate Fund shall be deposited in the General Reserve Fund.

#### **ADDITIONAL SECURITY; PARITY WITH OTHER PARITY OBLIGATIONS**

Except as otherwise provided or permitted in the Indenture, the Trust Estate securing all Bonds issued under the terms of the Indenture shall be shared on a parity with other Parity Obligations on an equal and ratable basis. The Commission may, however, in its discretion, provide additional security or credit enhancement for specified Parity Obligations with no obligation to provide such additional security or credit enhancement to other Parity Obligations, except that no additional security or credit enhancement shall be provided unless there shall have been first delivered to the Trustee an opinion of Bond Counsel that the exclusion from gross income of interest on any Bonds for federal income tax purposes will not be adversely affected thereby. Moreover, the Commission may provide in a Supplemental Indenture that Bonds issued thereunder are not secured, or are secured only in part or only under certain circumstances, by the Trust Estate.

#### **DEPOSITARIES; INVESTMENT OF MONEYS**

Except as otherwise provided in the Indenture, all moneys received by the Commission under the provisions of the Indenture shall be deposited with the Trustee or with one or more Depositaries. All moneys deposited under the provisions of the Indenture with the Trustee or any other Depositary shall be held in trust, credited to the particular fund or account to which such moneys belong and applied only in accordance with the provisions of the Indenture. No moneys shall be deposited with any Depositary, other than the Trustee, in an amount exceeding fifty per centum (50%) of the amount which an officer of such Depositary shall certify to the Commission as the combined capital and surplus of such Depositary. All moneys deposited with the Trustee or any other Depositary under the Indenture shall, to the extent not insured, be secured in the manner required or permitted by applicable law.

Moneys held in any of the funds or accounts under the Indenture may be retained uninvested, if deemed necessary by the Commission, as trust funds and secured as provided above or may be invested in Permitted Investments. All investments shall be made by the Trustee upon the oral request of the Commission, which is confirmed in writing by a Commission Official specifying the account or fund from which moneys are to be invested and designating the specific Permitted Investments to be acquired.

All investments made pursuant to this Section shall be subject to withdrawal or shall mature or be subject to repurchase or redemption by the holder, not later than the earlier of (a) the date or dates set forth for similar investments in the applicable Supplemental Indenture or (b) the date on which the moneys may reasonably be expected to be needed for the purpose of the Indenture.

Investments acquired with the moneys in any fund or account shall be a part of such fund or account and, for the purposes of determining the amount in such fund or account, shall be valued at their then fair market value. The interest or income received on an investment shall remain in the fund or account to which the investment is credited except to the extent otherwise provided in the applicable Supplemental Indenture.

The Trustee shall withdraw, redeem or sell all or a portion of any investment upon receipt of the written direction from the Commission or upon a determination by the Trustee that moneys in such fund or account are to be applied or paid by the Trustee pursuant to the provisions of the Indenture, and the proceeds thereof shall be deposited by the Trustee in the appropriate fund or account. Neither the Trustee nor the Commission shall be liable or responsible for any depreciation in the value of the Permitted Investments or for any losses incurred upon any unauthorized disposition thereof.

Each fund held under the Indenture shall be valued by the Trustee at least once annually within thirty days after the end of each Fiscal Year.

## **EVENTS OF DEFAULT**

Each of the following is an “Event of Default” under the Indenture:

- (a) Default in the payment of any installment of principal, redemption premium, if any, interest or other amount due on any Bond when the same becomes due and payable;
- (b) Default in the payment by the Commission of any other Parity Obligation;
- (c) Subject to the provisions of Section 807, default in the performance or breach of any covenant, warranty or representation of the Commission contained in the Indenture (other than a default under subsections (a) and (b) of this Section);
- (d) The occurrence of any Event of Default under any Supplemental Indenture; or
- (e) (1) The occurrence of an Event of Bankruptcy of the Commission; (2) the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or other similar official of the Commission or of any substantial portion of its property, which appointment shall not have been rescinded or stayed within ninety (90) days after taking effect; or (3) the ordering of the winding up or liquidation of the affairs of the Commission.

No default under paragraph (c) above under “Events of Default” shall constitute an Event of Default until written notice of such default shall have been given to the Commission by the Trustee or by the holders of at least 25% in aggregate principal amount of the Bonds Outstanding, and the Commission shall have had thirty (30) days after receipt of such notice to correct such default or cause such default to be corrected, and shall have failed to do so. In the event, however, that the default is such that it cannot be corrected within such thirty (30) day period, it shall not constitute an Event of Default if corrective action is instituted by the Commission within such period and diligently pursued (as determined by the Trustee) until the default is corrected.

## **REMEDIES UPON DEFAULT**

If an Event of Default occurs and is continuing, the Trustee may, and upon the written request to the Trustee by the holder or holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall, subject to the requirement that the Trustee be provided with indemnity satisfactory to it, by written notice to the Commission, declare the principal and interest on of the Bonds to the date of acceleration to be immediately due and payable.

At any time after such a declaration of acceleration has been made and before the entry of a judgment or decree for payment of the money due, the Trustee may, or the holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding, may by written notice to the Commission and the Trustee, and subject to the provision to the Trustee of satisfactory indemnity, direct the Trustee to rescind and annul such declaration and its consequences if:

- (1) there has been paid to or deposited with the Trustee by or for the account of the Commission, or provision satisfactory to the Trustee has been made for the payment of a sum sufficient to pay: (i) all overdue installments of interest on the Bonds; (ii) the principal of and redemption premium, if any, on any Bonds which have become due other than by such declaration of acceleration and interest thereon; (iii) all amounts due on other Parity Obligations; (iv) to the extent lawful, interest upon overdue installments of interest and redemption premium, if any; and (v) all sums paid or advanced by the Trustee

under the Indenture, together with the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and Counsel prior to the date of notice of rescission; and

(2) all Events of Default, other than those described in paragraphs (a) and (b) above under “Events of Default”, if any, which have occasioned such acceleration, have been cured or waived.

No such rescission and annulment shall affect any subsequent default or impair any consequent right.

#### **ADDITIONAL REMEDIES**

The Trustee, upon the occurrence of an Event of Default may, and upon the written request of the holders of not less than a majority in aggregate principal amount of the Bonds Outstanding and subject to the requirement that the Trustee be provided with satisfactory indemnity, shall proceed to protect and enforce its rights and the rights of the holders of the Bonds under the Indenture by a suit or suits in equity or at law, either for the specific performance of any covenant or agreement contained in the Indenture or in aid of the execution of any power in the Indenture granted, or for the enforcement of any other appropriate legal or equitable remedy, and the Trustee in reliance upon the advice of Counsel may deem most effective to protect and enforce any of the rights or interests of the Bondholders under the Bonds or the Indenture.

#### **TRUSTEE MAY FILE PROOFS OF CLAIM**

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding under the Bankruptcy Law relating to the Commission, any other obligor upon the Bonds or any property of the Commission, the Trustee (whether or not the principal of the Bonds shall then be due and payable by acceleration or otherwise, and whether or not the Trustee shall have made any demand upon the Commission for the payment of overdue principal, redemption premium, if any, and interest) shall be entitled and empowered, by intervention in such proceeding or other means:

(1) to file and prove a claim for the whole amount of the principal, redemption premium, if any, and interest owing and unpaid in respect of the Bonds then Outstanding or for breach of the Indenture and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and Counsel) and of the holders allowed in such proceeding; and

(2) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any receiver, assignee, trustee, liquidator, sequestrator or similar official in any such judicial proceeding is hereby authorized by each holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and Counsel, and any other amounts due the Trustee under the Indenture. However, no provision of the Indenture empowers the Trustee to authorize or consent to or accept or adopt on behalf of any Bondholders any plan of reorganization, arrangement, adjustment or composition affecting any of the Bonds or the rights of any holder thereof, or to authorize the Trustee to vote in respect of the claim of any holder in any proceeding described in the preceding paragraph.

#### **PRIORITY OF PAYMENT FOLLOWING EVENT OF DEFAULT**

Any portion of the Trust Estate held or received by the Trustee, by any receiver or by any Bond Owner pursuant to any right given or action taken under the provisions of this Article, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the fees, expenses and liabilities incurred by the Trustee and the transfer to Secured Owners (other than Owners of the Bonds) of amounts to which they are entitled by virtue of their parity position, shall be deposited and applied as follows:

(a) If the principal of all the Bonds then Outstanding and the interest accrued thereon has been declared to be due and payable immediately pursuant to the acceleration provisions described above (or, but for any legal prohibition on such declaration of acceleration, such principal and interest would have been declared to be due and payable immediately pursuant to such Section or the provisions of any applicable Reimbursement Agreement) and such declaration has not been rescinded and annulled, there shall be deposited into the Debt Service Fund moneys sufficient to pay the amounts described in clauses (i), (ii) and (iii) below, and all such moneys shall be applied, as promptly as practicable (but subject to the provisions of the last paragraph of this Section), proportionately to

(i) the payment to the persons entitled thereto of all payments of interest then due on the Bonds with interest on overdue installments, if lawful, at their respective rates from the respective dates upon which they became due, in the order of maturity of the installments of such interest and, if the amount available shall not be



sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment;

(ii) the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due (or which but for any legal prohibition on such declaration of acceleration would have become due) with interest on such Bonds at their respective rates from the respective dates upon which they became due and, if the amount available shall not be sufficient to pay in full the Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, in each case to the persons entitled thereto, without any discrimination or privilege;

(iii) the payment of any other amounts then owing under the Indenture; and, after said deposit into the Debt Service Fund, there shall be paid the Subordinated Indebtedness issued or incurred by the Commission pursuant to the Indenture.

(b) If the principal of and interest on all Bonds then Outstanding and has not been declared to be due and payable immediately pursuant to the acceleration provisions described above (or deemed to be due and payable as contemplated in paragraph (a) above) or if such a declaration has been rescinded and annulled, then there shall be deposited into the Debt Service Fund moneys sufficient to pay the amounts described in clauses (i), (ii) and (iii) below, and all such moneys shall be applied, as promptly as practicable (but subject to the provisions of the last paragraph of this Section),

(i) first, to the payment to the persons entitled thereto of all installments of interest then due on the Bonds, with interest on overdue installments, if lawful, at their respective rates from the respective dates upon which they became due, in the order of maturity and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment;

(ii) second, to the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due with interest on such Bonds at their respective rates from the respective dates upon which they became due and, if the amount available shall not be sufficient to pay in full the Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, in each case to the persons entitled thereto, without any discrimination or privilege; and

(iii) third, to the payment of any other amounts then owing under the Indenture, and, after said deposit into the Debt Service Fund, there shall be paid the Subordinated Indebtedness issued or incurred by the Commission pursuant to the Indenture.

Whenever moneys are to be applied pursuant to the provisions of this Section, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal and interest to be paid on such date shall cease to accrue. The Trustee shall give notice of the deposit with it of any such moneys and of the fixing of any such date by mail to all Owners of Bonds with respect to which the Event of Default occurred and shall not be required to make payment to any Bond Owner until such Bonds shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

#### **BONDHOLDERS MAY DIRECT PROCEEDINGS**

The owners of a majority in aggregate principal amount of the Bonds Outstanding shall, subject to the requirement that the Trustee be provided with satisfactory indemnity, have the right, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings by the Trustee under the Indenture, provided that such direction shall not be in conflict with any rule of law or the Indenture and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unduly prejudicial to the rights of Bondholders not parties to such direction or would subject the Trustee to personal liability or expense. Notwithstanding the foregoing, the Trustee shall have the right to select and retain Counsel of its choosing to represent it in any such proceedings. The Trustee may take any other action which is not inconsistent with any direction under this provision.

#### **LIMITATIONS ON RIGHTS OF BONDHOLDERS**

No Bondholder shall have any right to pursue any other remedy under the Indenture or the Bonds unless: (1) an Event of Default shall have occurred and is continuing; (2) the owners of not less than a majority in aggregate principal amount of all Bonds then Outstanding have requested the Trustee, in writing, to exercise the powers hereinabove granted or to pursue such remedy in its or their name or names; (3) the Trustee has been offered indemnity satisfactory to it against costs, expenses and liabilities reasonably anticipated to be incurred; (4) the Trustee has declined to comply with such request,

or has failed to do so, within sixty (60) days after its receipt of such written request and offer of indemnity; and (5) no direction inconsistent with such request has been given to the Trustee during such 60 day period by the holders of a majority in aggregate principal amount of the Bonds Outstanding.

The provisions of the preceding paragraph are conditions precedent to the exercise by any Bondholder of any remedy under the Indenture. The exercise of such rights is further subject to the provisions described under “Limitations on Rights of Bondholders” above and “Unconditional Right of Bondholder to Receive Payment” and “Delay or Omission Not Waiver” below. No one or more Bondholders shall have any right in any manner whatever to enforce any right under the Indenture, except in the manner provided in the Indenture. All proceedings at law or in equity with respect to an Event of Default shall be instituted and maintained in the manner provided in the Indenture for the equal and ratable benefit of the Bondholders of all Bonds Outstanding.

#### **RIGHTS AND REMEDIES CUMULATIVE**

No right or remedy in the Indenture conferred upon or reserved to the Trustee is intended to be exclusive of any other right or remedy, but each such right or remedy shall, to the extent permitted by law, be cumulative of and in addition to every other right or remedy given under the Indenture or now or hereafter existing at law, in equity or otherwise. The assertion or employment of any right or remedy under the Indenture shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

#### **DELAY OR OMISSION NOT WAIVER**

No delay or omission by the Trustee or any Bondholder to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of such Event of Default. Every right and remedy given by this Article or by law to the Trustee or the Bondholders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or the Bondholders, as the case may be.

#### **WAIVER OF DEFAULTS**

The holders of a majority in aggregate principal amount of the Outstanding Bonds may, by written notice to the Trustee and subject to the requirement that the Trustee be provided with satisfactory indemnity, waive any existing default or Event of Default and its consequences, except an Event of Default under paragraph (a) or (b) under “Events of Default.” Upon any such waiver, the default or Event of Default shall be deemed cured and shall cease to exist for all purposes. No waiver of any default or Event of Default shall extend to or effect any subsequent default or Event of Default or shall impair any right or remedy consequent thereto.

Notwithstanding any provision of the Indenture, in no event shall any Person, other than all of the affected Bondholders, have the ability to waive any Event of Default under the Indenture if such event results or may result, in the opinion of Bond Counsel, in interest on any of the Bonds becoming includable in gross income for federal income tax purposes if the interest on such Bonds was not includable in gross income for federal income tax purposes prior to such event.

#### **NOTICE OF EVENTS OF DEFAULT**

If an Event of Default occurs of which the Trustee has or is deemed to have notice under the Indenture, the Trustee shall give Immediate Notice thereof to the Commission. Within 90 days thereafter (unless such Event of Default has been cured or waived), the Trustee shall give notice of such Event of Default to each Bondholder then Outstanding, provided, however, that except in the instance of an Event of Default described in paragraph (a) or (b) above under “Events of Default,” the Trustee may withhold such notice if and so long as the Trustee in good faith determines that the withholding of such notice does not materially adversely affect the interests of Bondholders, and provided, further, that notice to Bondholders of any Event of Default under paragraph (c) under “Events of Default” shall be subject to the provisions described above relating to cure of such defaults and shall not be given until the grace period has expired.

#### **THE TRUSTEE; QUALIFICATIONS OF TRUSTEE**

The Indenture contains provisions relating to the appointment and duties of the Trustee. The trustee under the Indenture shall be a corporation or banking association organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, which has a combined capital and surplus of at least \$50,000,000, or is an affiliate of, or has a contractual relationship with, a corporation or banking association meeting such capital and surplus requirement which guarantees the obligations and liabilities of the proposed trustee, and which is subject to supervision or examination by federal or state banking authority. If such corporation or banking association publishes reports of condition at least annually, pursuant to law or the requirements of such banking authority, then for purposes of this Section, the combined capital and surplus of such corporation or banking association shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any

time the Trustee shall cease to be eligible in accordance with the provision described above, it shall resign promptly in the manner and with the effect specified in the Indenture.

#### **RESIGNATION OR REMOVAL OF TRUSTEE; APPOINTMENT OF SUCCESSOR TRUSTEE**

No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to the Indenture shall become effective until the acceptance of appointment by the successor Trustee under the Indenture.

The Trustee may resign at any time by giving written notice to the Commission. Upon receiving such notice of resignation, the Commission shall promptly appoint a successor Trustee by an instrument in writing. If an instrument of acceptance has not been delivered to the resigning Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee or any Bondholder may petition a court of competent jurisdiction for the appointment of a successor Trustee.

Prior to the occurrence and continuance of an Event of Default under the Indenture, or after the curing or waiver of any such Event of Default, the Commission or the holders of a majority in aggregate principal amount of the Outstanding Bonds, may remove the Trustee and shall appoint a successor Trustee. In the event there shall have occurred and be continuing an Event of Default under the Indenture, the holders of a majority in aggregate principal amount of the Outstanding Bonds may remove the Trustee and shall appoint a successor Trustee. In each instance, such removal and appointment shall be accomplished by an instrument or concurrent instruments in writing signed by the Commission or such holders, as the case may be, and delivered to the Trustee, the Commission, the holders of the Outstanding Bonds and the Successor Trustee.

If at any time: (1) the Trustee shall cease to be eligible and qualified under the Indenture and shall fail or refuse to resign after written request to do so by the Commission or the holder of any Bond, or (2) the Trustee shall become incapable of acting or shall be adjudged insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take charge or control of the Trustee, its property or affairs for the purpose of rehabilitation, conservation or liquidation, then in either such case (i) the Commission may remove the Trustee and appoint a successor Trustee in accordance with the provisions of the immediately preceding paragraph; or (ii) any holder of a Bond then Outstanding may, on behalf of the holders of all Outstanding Bonds, petition a court of competent jurisdiction for removal of the Trustee and appointment of a successor Trustee.

The Commission shall give written notice of each resignation or removal of the Trustee and each appointment of a successor Trustee to each holder of Bonds then Outstanding as listed in the Bond Register. Each such notice shall include the name and address of the applicable corporate trust office of the successor Trustee.

#### **SUPPLEMENTAL INDENTURES WITHOUT BONDHOLDERS' CONSENT**

The Indenture provides that the Commission and the Trustee may from time to time and at any time enter into Supplemental Indentures, without the consent of or notice to any Bondholder, to effect any one or more of the following:

- (a) cure any ambiguity, defect or omission or correct or supplement any provision in the Indenture or in any Supplemental Indenture;
- (b) grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Bondholders or the Trustee which are not contrary to or inconsistent with the Indenture as then in effect or to subject to the pledge and lien of the Indenture additional revenues, properties or collateral including Defeasance Obligations;
- (c) add to the covenants and agreements of the Commission in the Indenture other covenants and agreements thereafter to be observed by the Commission or to surrender any right or power in the Indenture reserved to or conferred upon the Commission which are not contrary to or inconsistent with the Indenture as then in effect;
- (d) permit the appointment of a co-trustee under the Indenture;
- (e) modify, alter, supplement or amend the Indenture in such manner as shall permit the qualification of the Indenture, if required, under the Trust Indenture Act of 1939, the Securities Act of 1933 or any similar federal statute hereafter in effect;
- (f) make any other change in the Indenture that is determined by the Trustee not to be materially adverse to the interests of the Bondholders;
- (g) implement the issuance of Additional Bonds permitted under the Indenture; or
- (h) if all Bonds in a series are Book Entry Bonds, amend, modify, alter or replace any Letter of Representations as provided in Section 209 of the Indenture or other provisions relating to Book Entry Bonds.

The Trustee shall not be obligated to enter into any such Supplemental Indenture which adversely affects the Trustee's own rights, duties or immunities under the Indenture.

#### **SUPPLEMENTAL INDENTURES REQUIRING BONDHOLDERS' CONSENT**

The Commission and the Trustee, at any time and from time to time, may execute and deliver a Supplemental Indenture for the purpose of making any modification or amendment to the Indenture, but only with the written consent, given as provided in the Indenture, of the holders of at least a majority in aggregate principal amount of the Bonds Outstanding at the time such consent is given, and in case less than all of the Bonds then Outstanding are affected by the modification or amendment, of the holders of at least a majority in aggregate principal amount of the Bonds so affected and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds so affected remain Outstanding, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under these provisions. Notwithstanding the foregoing, no modification or amendment contained in any such Supplemental Indenture shall permit any of the following, without the consent of each Bondholder whose rights are affected thereby:

- (a) a change in the terms of stated maturity or redemption of any Bond or of any installment of interest thereon;
- (b) a reduction in the principal amount of or redemption premium on any Bond or in the rate of interest thereon or a change in the coin or currency in which such Bond is payable;
- (c) the creation of a lien on or a pledge of any part of the Trust Estate which has priority over or parity with (to the extent not permitted under the Indenture) the lien or pledge granted to the Bondholders under the Indenture (but this provision shall not apply to the release of any part of the Trust Estate as opposed to the creation of a prior or parity lien or pledge);
- (d) the granting of a preference or priority of any Bond or Bonds over any other Bond or Bonds, except to the extent permitted in the Indenture;
- (e) a reduction in the aggregate principal amount of Bonds of which the consent of the Bondholders is required to effect any such modification or amendment; or
- (f) a change in the provisions of the Indenture provisions relating to amendments and supplements.

Notwithstanding the foregoing, the holder of any Bond may extend the time for payment of the principal of or interest on such Bond; provided, however, that upon the occurrence of an Event of Default, funds available under the Indenture for the payment of the principal of and interest on the Bonds shall not be applied to any payment so extended until all principal and interest payments which have not been extended have first been paid in full. Notice of any Supplemental Indenture executed pursuant to the provisions described above shall be given to the Bondholders promptly following the execution thereof.

#### **CONSENTS OF BONDHOLDERS AND OPINIONS**

Each Supplemental Indenture executed and delivered pursuant to the provisions described under "Supplemental Indentures Requiring Bondholders' Consent" shall take effect only when and as provided below. A copy of such Supplemental Indenture (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be sent by the Trustee to Bondholders, at the expense of the Commission, by first class mail, postage prepaid, provided that a failure to mail such request shall not affect the validity of the Supplemental Indenture when consented to as provided in the Indenture. Such Supplemental Indenture shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of Bondholders of the percentage of Bonds specified above under "Supplemental Indentures Requiring Bondholders' Consent" given as provided in the Indenture, and (b) an opinion of Counsel acceptable to the Trustee stating that (1) the execution of such Supplemental Indenture is authorized or permitted by the Indenture and (2) all conditions precedent to the execution and delivery of such Supplemental Indenture have been complied with, and an opinion of Bond Counsel that the execution and performance of such Supplemental Indenture shall not, in and of itself, adversely affect the federal income tax status of any Bonds, the interest on which is not included in gross income for federal income tax purposes. Any such consent shall be binding upon the Bondholder giving such consent and upon any subsequent holder of such Bonds and of any Bonds issued in exchange therefor or in lieu thereof (whether or not such subsequent Bondholder has notice thereof), unless such consent is revoked in writing by the Bondholder giving such consent or a subsequent holder of such Bonds by filing such revocation with the Trustee prior to the date the Trustee receives the material required in clauses (a) and (b) above.

Notwithstanding anything else in the Indenture, if a Supplemental Indenture is to become on the same date as the date of issuance of Additional Bonds, the consents of the underwriters or purchasers of such Additional Bonds shall be counted for purposes of the Indenture.

The Indenture provides that Bonds which are to be disregarded under the last sentence of the definition of “Outstanding” shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article. At the time of any consent or other action taken under this Article or elsewhere in the Indenture, the Commission shall furnish the Trustee a certificate of a Commission Official, upon which the Trustee may rely, describing all Bonds so to be excluded.

## **DISCHARGE OF BONDS**

If (a) the principal of any Bonds and the interest due or to become due thereon, together with any redemption premium required by redemption of any of the Bonds prior to maturity, shall be paid, or is caused to be paid, or is provided for as described below under “Defeasance,” at the times and in the manner to which reference is made in the Bonds, according to the true intent and meaning thereof, or the outstanding Bonds shall have been paid and discharged in accordance with this Article, and (b) all of the covenants, agreements, obligations, terms and conditions of the Commission under the Indenture shall have been kept, performed and observed and there shall have been paid to the Trustee, the Bond Registrar and the Paying Agents all sums of money due or to become due to them in accordance with the terms and provisions of the Indenture, then the right, title and interest of the Trustee in the Trust Estate shall thereupon cease and the Trustee, on request of the Commission and at the expense of the Commission, shall release the Indenture and the Trust Estate and shall execute such documents to evidence such release as may be reasonably required by the Commission and shall turn over to the Commission, or to such other Person as may be entitled to receive the same, all balances remaining in any Funds under the Indenture except for amounts required to pay such Bonds or held unclaimed in respect of Bonds which have matured or been redeemed pursuant to the Indenture.

## **DEFEASANCE**

If the Commission deposits with the Trustee moneys or Defeasance Obligations which, together with the earnings thereon, are sufficient to pay the principal amount of and redemption premium on any particular Bond or Bonds becoming due, either at maturity, by means of mandatory sinking fund redemption or by call for optional redemption or otherwise, together with all interest accruing thereon to the due date or Redemption Date, and pays or makes provision for payment of all fees, costs and expenses of the Commission and the Trustee due or to become due with respect to such Bonds, all liability of the Commission with respect to such Bond or Bonds shall cease, such Bond or Bonds shall be deemed not to be Outstanding under the Indenture and the holder or holders of such Bond or Bonds shall be restricted exclusively to the moneys or Defeasance Obligations so deposited, together with any earnings thereon, for any claim of whatsoever nature with respect to such Bond or Bonds, and the Trustee shall hold such moneys, Defeasance Obligations and earnings in trust for such holder or holders. In determining the sufficiency of the moneys and Defeasance Obligations deposited pursuant to this Section, the Trustee shall receive, at the expense of the Commission, and may rely upon: (a) a verification report of a firm of nationally recognized independent certified public accountants or other qualified firm acceptable to the Commission and the Trustee; provided, however, that the Trustee may waive the requirement for the provision of such verification report if the Bonds which are being defeased will be paid and cancelled within 90 days and the Trustee can calculate the interest to be paid on such Bonds to and including such payment or redemption date; and (b) an opinion of Bond Counsel to the effect that (1) all conditions set forth in this Article have been satisfied and (2) that defeasance of any Bonds will not cause interest on the Bonds to be includable in gross income for federal income tax purposes. Upon such defeasance, all rights of the Commission, including its right to provide for optional redemption or prepayment of any Bonds on dates other than planned pursuant to such defeasance shall cease unless specifically retained by filing a written notification thereof with the Trustee at the time the Defeasance Obligations are deposited with the Trustee.

In the case of any defeasance of the Multi-Modal Bonds, in addition to the other requirements of the Indenture, funds must be deposited in escrow in an amount sufficient to cover all future payments to bondholders at the maximum interest rate allowable on the Multi-Modal Bonds as provided in the Indenture. In addition, in such event, the Commission (1) shall agree in the escrow deposit agreement to call the Multi-Modal Bonds for redemption or purchase not later than their first possible mandatory redemption or optional purchase date, or (2) shall obtain from the Rating Agency a statement that the defeasance would not result in the reduction or withdrawal of the ratings assigned to the Multi-Modal Bonds. The Rating Agency shall be notified of any changes or amendments to the escrow deposit arrangement including, without limitation, entering into a forward purchase contract or changing the definition of eligible securities.

At such times as a Bonds shall be deemed to be paid under the Indenture, as aforesaid, it shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such money or Defeasance Obligations.

## **NOTICE OF DEFEASANCE**

(a) In case any of the Bonds, for the payment of which moneys or Defeasance Obligations have been deposited with the Trustee pursuant to the provisions described above under “Defeasance,” are to be redeemed on any date

prior to their maturity, the Commission shall give to the Trustee in form satisfactory to it irrevocable instructions to give notice of redemption of such Bonds on the redemption date for such Bonds.

(b) In addition to the foregoing notice, in the event such Bonds to be redeemed are not by their terms subject to redemption within the next succeeding 60 days, the Trustee shall give further notice to the Bondholders that the deposit required by the provisions described above under “Defeasance” has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Article and stating the maturity or redemption date or dates upon which moneys are to be available for the payment of the principal of and redemption premium, if any, on said Bonds; such further notice shall be given promptly following the making of the deposit required by said provisions; and such further notice also shall be given in the manner set forth in the Indenture; but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of the deposit.

(c) If the Commission has retained any rights pursuant to the provisions described above under “Defeasance”, notice thereof shall be sent to Bondholders of such Bonds as soon as practicable and not later than any notice required by paragraphs (a) or (b) above.

#### **RIGHTS OF THE BOND INSURER**

The Supplemental Indenture No. 8 contains a number of provisions required by Ambac Assurance as the Bond Insurer of the 2006 Bonds. Such provisions, among other things, grant Ambac Assurance the right to receive notices of certain events and other information, the right to consent to certain actions, acceleration rights, the right to control certain remedies granted to the Owners of the 2006 Bonds or the Trustee for the benefit of such Owner, recognition as a third-party beneficiary thereunder, and impose requirements for Permitted Investments, valuation, trustee related provisions and defeasance.

## **APPENDIX C**

### **FORM OF OPINION OF BOND COUNSEL**

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**[FORM OF OPINION OF DILWORTH PAXSON LLP, BOND COUNSEL]**

June 22, 2006

TO THE PURCHASERS OF THE BONDS DESCRIBED BELOW

**RE:** \$353,865,000 Pennsylvania Turnpike Commission  
Turnpike Revenue Bonds, Fixed Rate Revenue Bonds,  
Series A of 2006; Multi-Modal Revenue Bonds, Series  
B of 2006; and Multi-Modal Revenue Bonds, Series C  
of 2006

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance and sale by the Pennsylvania Turnpike Commission (the "Commission") of its \$353,865,000 principal amount of its Turnpike Revenue Bonds, Fixed Rate Revenue Bonds, Series A of 2006, Multi-Modal Revenue Bonds, Series B of 2006 and Multi-Modal Revenue Bonds, Series C of 2006 (the "Bonds") pursuant to the Amended and Restated Trust Indenture dated as of March 1, 2001 (the "Amended and Restated Trust Indenture"), as amended and supplemented to the date hereof (as so amended and supplemented, the "Indenture"), between the Commission and U.S. Bank National Association (successor to Wachovia Bank, National Association), as Trustee (the "Trustee").

We have examined (i) an executed copy of the Amended and Restated Trust Indenture and each supplement thereto, including the Supplemental Trust Indenture No. 8 dated as of June 1, 2006 between the Commission and the Trustee (the "Supplemental Indenture"), (ii) the forms of Bonds, and (iii) such constitutional and statutory provisions and such other resolutions, certificates, instruments and documents as we have deemed necessary or appropriate in order to enable us to render an informed opinion as to matters set forth herein.

In rendering this opinion, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As to any facts material to our opinion, we have, when relevant facts were not independently established, relied upon the aforesaid instruments, certificates and documents without undertaking to verify the same by independent investigation.

The Commission covenants in the Indenture to maintain the exclusion of interest on the Bonds from gross income for federal income tax purposes and, among other things, comply with the requirements of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder or applicable with respect thereto (the "Code"). The

Commission further covenants in the Indenture that it will not make any investment or other use of the proceeds of the Bonds which would have caused the Bonds to be "arbitrage bonds" under Section 148 of the Code.

Based upon the foregoing, it our opinion, under existing law and as of the date hereof, subject to the qualifications and limitations set forth herein, that:

1. The Commission is a validly existing instrumentality of the Commonwealth of Pennsylvania and has the power to enter into the transactions contemplated by the Indenture and to carry out its obligations thereunder.

2. The Supplemental Indenture has been duly authorized, executed and delivered by the Commission and constitutes the valid and binding obligation of the Commission enforceable against it in accordance with its respective terms.

3. The Bonds have been duly and validly authorized and issued by the Commission and constitute the valid and binding limited obligations of the Commission enforceable against it in accordance with their terms, payable from the sources provided therefor in the Indenture.

4. The Bonds are exempt from personal property taxes in Pennsylvania and the interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax.

5. Under existing statutes, regulations, rulings and court decisions, interest on the Bonds will not be includible in gross income of the holders thereof for federal income tax purposes and will not be a specific preference item for purposes of computing the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on corporations (other than an S corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit). In addition, interest on the Bonds is included in effectively connected earnings and profits for the purpose of computing the branch profits tax imposed on certain foreign corporations doing business in the United States. Further, interest on the Bonds may be subject to federal income taxation under Section 1375 of the Code for S corporations that have Subchapter C earnings and profits at the close of the taxable year if more than 25% of the gross receipts of such S corporations is passive investment income.

Attention is invited to the fact that ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers, including financial institutions subject to Section 265 of the Code, who may be deemed to have incurred or continued indebtedness to purchase or to carry the Bonds, and we express no opinion as to any of such consequences.

In rendering this opinion, we have assumed compliance by the Commission with the covenants contained in the Bonds, the statements contained in the Indenture and the statements of the Commission provided in its Tax Regulatory Agreement that are intended to comply with the provisions of the Code relating to actions to be taken by the Commission in respect of the Bonds after the issuance thereof to the extent necessary to effect or maintain the federal tax-exempt status of the interest on the Bonds. These covenants and statements relate to, inter alia, the use of proceeds of the Bonds and the rebating to the United States Treasury of specified arbitrage earnings, if required.

Our opinions set forth above as to the enforceability of the Bonds and the Supplemental Indenture are subject to applicable bankruptcy, reorganization, moratorium, insolvency or other laws affecting creditors' rights or remedies generally (including, without limitation, laws relating to fraudulent conveyances or transfers) and are subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

These opinions are rendered on the basis of federal law and the laws of the Commonwealth of Pennsylvania as enacted and construed on the date hereof. We express no opinion as to any matter not set forth in the numbered paragraphs above, including, without limitation, with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of, the Preliminary Official Statement or the Official Statement prepared in respect of the Bonds, including the appendices thereto, and make no representation that we have independently verified any such information.

The opinions set forth herein are given solely for the benefit of the purchasers of the Bonds and may not be relied on by any other person or entity without our express prior written consent. The opinions set forth herein are given solely as of the date hereof, and we do not undertake to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

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**APPENDIX D**  
**TOTAL DEBT SERVICE FOR TOLL REVENUE BONDS (as of 6/1/2006)**

Fiscal Year May 31	Existing  Debt Service <sup>1,4</sup>	2006 Bonds						Agregate  Debt Service
		2006 A		2006 B		2006 C		
		Principal	Interest <sup>2</sup>	Principal <sup>3</sup>	Interest <sup>4</sup>	Principal <sup>3</sup>	Interest <sup>4</sup>	
2007	98,018,083	-	2,509,215	2,210,000	4,008,418	2,210,000	4,008,418	112,964,135
2008	98,064,525	-	5,681,242	-	4,637,089	-	4,637,089	113,019,944
2009	98,108,840	-	5,681,242	6,200,000	4,517,572	6,200,000	4,517,572	125,225,225
2010	98,149,187	-	5,681,242	6,455,000	4,273,783	6,455,000	4,273,783	125,287,995
2011	98,174,081	-	5,681,242	6,730,000	4,011,032	6,730,000	4,011,032	125,337,388
2012	98,206,856	-	5,681,242	6,965,000	3,744,499	6,965,000	3,744,499	125,307,096
2013	98,238,986	-	5,681,242	7,280,000	3,447,643	7,280,000	3,447,643	125,375,514
2014	98,330,376	-	5,681,242	7,585,000	3,157,884	7,585,000	3,157,884	125,497,386
2015	99,833,663	-	5,681,242	7,905,000	2,849,189	7,905,000	2,849,189	127,023,282
2016	99,987,149	-	5,681,242	8,245,000	2,531,643	8,245,000	2,531,643	127,221,676
2017	96,409,724	-	5,681,242	8,605,000	2,187,404	8,605,000	2,187,404	123,675,775
2018	96,625,769	-	5,681,242	8,970,000	1,841,365	8,970,000	1,841,365	123,929,741
2019	69,173,873	-	5,681,242	9,355,000	1,476,194	9,355,000	1,476,194	96,517,503
2020	69,250,170	-	5,681,242	9,755,000	1,096,964	9,755,000	1,096,964	96,635,341
2021	69,335,432	-	5,681,242	10,180,000	696,647	10,180,000	696,647	96,769,968
2022	69,388,309	-	5,681,242	10,615,000	283,744	10,615,000	283,744	96,867,039
2023	69,443,414	20,065,000	5,681,242	870,000	20,403	870,000	20,403	96,970,463
2024	69,496,835	22,790,000	4,715,313	-	-	-	-	97,002,148
2025	69,555,242	23,885,000	3,618,202	-	-	-	-	97,058,445
2026	69,617,793	25,035,000	2,468,379	-	-	-	-	97,121,171
2027	69,683,957	26,240,000	1,263,194	-	-	-	-	97,187,151
2028	69,790,443	-	-	-	-	-	-	69,790,443
2029	69,936,615	-	-	-	-	-	-	69,936,615
2030	70,045,948	-	-	-	-	-	-	70,045,948
2031	70,119,090	-	-	-	-	-	-	70,119,090
2032	70,195,938	-	-	-	-	-	-	70,195,938
2033	70,197,238	-	-	-	-	-	-	70,197,238
2034	70,196,250	-	-	-	-	-	-	70,196,250
2035	70,197,750	-	-	-	-	-	-	70,197,750
	\$2,363,771,536	\$118,015,000	\$105,474,176	\$117,925,000	\$44,781,472	\$117,925,000	\$44,781,472	\$2,912,673,656

- 1 Included in the existing debt service are Series 1998 Q, 2001R, 2001S, 2001T, 2001U, 2002A, 2002B, 2004A. The 2001U, 2002A, 2002B are variable rate bonds, swapped to fix rates. The debt service forecast reflects the synthetic fixed rates, excluding the expenses (liquidity, remarketing, and/or broker-dealer fees).
- 2 The 2006A are fixed rate bonds, swapped to variable. The interest column above includes swap payments with assumed BMA rate of 4.00%.
- 3 Mandatory redemption schedule.
- 4 Variable interest rate assumption: 4% is the assumed interest rate for all net variable rate bonds (unhedged variable or synthetic variable), which include the Series Q, 2006 A, B, & C. For all variable rate bonds, the expenses (liquidity, remarketing, and/or broker-dealer fees) are not included in this debt service table.

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## **APPENDIX E**

### **SPECIMEN BOND INSURANCE POLICY**

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## Financial Guaranty Insurance Policy

Ambac Assurance Corporation  
One State Street Plaza, 15th Floor  
New York, New York 10004  
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

**Ambac Assurance Corporation (Ambac)**, a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)

Authorized Officer of Insurance Trustee

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## **APPENDIX F**

### **THE BANK**

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## **JPMORGAN CHASE BANK, NATIONAL ASSOCIATION**

JPMorgan Chase Bank, National Association (the “Bank”) is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Bank is a commercial bank offering a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of March 31, 2006, JPMorgan Chase Bank, National Association, had total assets of \$1,093.4 billion, total net loans of \$408.1 billion, total deposits of \$581.3 billion, and total stockholder’s equity of \$87.4 billion. These figures are extracted from the Bank’s unaudited Consolidated Reports of Condition and Income as at March 31, 2006, which are filed with the Federal Deposit Insurance Corporation.

Additional information, including the most recent Form 10-K for the year ended December 31, 2005, of JPMorgan Chase & Co., the 2005 Annual Report of JPMorgan Chase & Co. and additional annual, quarterly and current reports filed or furnished with the Securities and Exchange Commission by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017.

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The information contained in this Appendix relates to and has been obtained from the Bank. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to in this Appendix is correct as of any time subsequent to its date.

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