

In the opinion of Co-Bond Counsel, interest on the 2013 Bonds will be excluded from gross income for federal income tax purposes under existing statutes, regulations, rulings and court decisions, subject to the conditions described in “TAX MATTERS” herein. In addition, interest on the 2013 Bonds will not be treated as an item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended (the “Code”), for purposes of the individual and corporate alternative minimum taxes; however, under the Code, such interest may be subject to certain other taxes affecting corporate holders of the 2013 Bonds. Under the existing laws of the Commonwealth of Pennsylvania, interest on the 2013 Bonds will be free from Pennsylvania personal income taxation and Pennsylvania corporate net income taxation but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the 2013 Bonds or the interest thereon. For a more complete discussion, see “TAX MATTERS” herein.



## PENNSYLVANIA TURNPIKE COMMISSION

### \$27,785,000 OIL FRANCHISE TAX SENIOR REVENUE REFUNDING BONDS, SERIES A OF 2013

### \$32,035,000 OIL FRANCHISE TAX SUBORDINATED REVENUE REFUNDING BONDS, SERIES B OF 2013

**Dated:** Date of Delivery

**Due:** December 1, As Shown on Inside Front Cover

The Pennsylvania Turnpike Commission Oil Franchise Tax Senior Revenue Refunding Bonds, Series A of 2013 (the “**2013A Bonds**”) and the Oil Franchise Tax Subordinated Revenue Refunding Bonds, Series B of 2013 (the “**2013B Bonds**,” and together with the 2013A Bonds, the “**2013 Bonds**”) are being issued pursuant to a Sixth Supplemental Trust Indenture dated as of October 1, 2013 (“**Supplemental Indenture No. 6**”) to the Trust Indenture dated as of August 1, 1998, as previously amended and supplemented (together with the Sixth Supplemental Indenture, the “**Indenture**”), between the Pennsylvania Turnpike Commission (the “**Commission**”) and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the “**Trustee**”). The 2013A Bonds are being issued to provide funds to finance the costs of (i) refunding a portion of the Commission’s outstanding Oil Franchise Tax Senior Revenue Bonds, Series A of 2003 and (ii) issuing the 2013A Bonds. The 2013B Bonds are being issued to provide funds to finance the costs of (i) refunding a portion of the Commission’s outstanding Oil Franchise Tax Subordinated Revenue Bonds, Series B of 2003 and (ii) issuing the 2013B Bonds. Manufacturers and Traders Trust Company serves as paying agent (the “**Paying Agent**”) for the 2013 Bonds.

The 2013 Bonds will be dated the date of initial issuance and delivery thereof. The 2013 Bonds will mature on December 1 of the years and bear interest from their delivery date at the rates shown on the inside cover page hereof, calculated on the basis of a year of 360 days consisting of twelve 30-day months. Interest on the 2013 Bonds will be payable on each June 1 and December 1, commencing on December 1, 2013.

The 2013 Bonds are deliverable in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the 2013 Bonds. Beneficial ownership interests in the 2013 Bonds will be recorded in book-entry only form in denominations of \$5,000 or any integral multiple thereof. Purchasers of the 2013 Bonds will not receive bonds representing their beneficial ownership in the 2013 Bonds, but will receive a credit balance on the books of their respective DTC Participants or DTC Indirect Participants. So long as Cede & Co. is the registered owner of the 2013 Bonds, principal of and interest on the 2013 Bonds will be paid to Cede & Co., as nominee of DTC, which will, in turn, remit such principal and interest to the Participants and Indirect Participants for subsequent disbursement to the Beneficial Owners, as described herein. The 2013 Bonds will be transferable or exchangeable to another nominee of The Depository Trust Company or as otherwise described herein. So long as Cede & Co. is the registered owner of the 2013 Bonds, payments of principal and interest on the 2013 Bonds will be made directly by the Paying Agent under the Indenture, as described herein. See “DESCRIPTION OF THE 2013 Bonds – Book-Entry Only System.” The 2013 Bonds will be subject to optional redemption prior to maturity as described herein.

**THE GENERAL ASSEMBLY OF THE COMMONWEALTH OF PENNSYLVANIA (THE “COMMONWEALTH”) HAS ALLOCATED A PORTION OF THE OIL COMPANY FRANCHISE TAX (THE “OIL FRANCHISE TAX”) IMPOSED BY THE COMMONWEALTH AND APPROPRIATED IT TO THE COMMISSION. THE 2013 BONDS ARE LIMITED OBLIGATIONS OF THE COMMISSION PAYABLE SOLELY FROM THE TRUST ESTATE INCLUDING, BUT NOT LIMITED TO, THAT PORTION OF THE OIL FRANCHISE TAX PAID TO THE COMMISSION OR THE TRUSTEE BY THE COMMONWEALTH AND CERTAIN FUNDS HELD UNDER THE INDENTURE AND THE EARNINGS THEREON. THE 2013 BONDS SHALL NOT BE DEEMED TO BE A DEBT OF THE COMMONWEALTH OR A PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH AND SHALL NOT BE AN OBLIGATION OF THE COMMISSION PAYABLE FROM ANY SOURCE EXCEPT THE TRUST ESTATE, WHICH INCLUDES BUT IS NOT LIMITED TO, THAT PORTION OF THE OIL FRANCHISE TAX PAID TO THE COMMISSION OR THE TRUSTEE BY THE COMMONWEALTH AND CERTAIN FUNDS HELD UNDER THE INDENTURE AND THE EARNINGS THEREON. 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.

The 2013 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 Cozen O’Connor, Philadelphia, Pennsylvania and Gonzalez Saggio & Harlan LLP, New York, New York, Co-Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Underwriters by Schnader Harrison Segal & Lewis LLP, Pittsburgh, Pennsylvania, Counsel for the Underwriters. Certain legal matters will be passed upon for the Commission by its Chief Counsel, Doreen A. McCall, Esquire, and by Dilworth Paxson LLP, Philadelphia, Pennsylvania, Disclosure Counsel to the Commission. It is anticipated that delivery of the 2013 Bonds in book-entry form will be made through the facilities of DTC in New York, New York on or about October 1, 2013.

**Loop Capital Markets**

**Wells Fargo Securities**  
**Baird**

**Barclays**

**Goldman, Sachs & Co.**  
**Jefferies**

**PENNSYLVANIA TURNPIKE COMMISSION**  
**\$27,785,000 OIL FRANCHISE TAX SENIOR REVENUE**  
**REFUNDING BONDS, SERIES A OF 2013**

**MATURITY SCHEDULE**

<b><u>Maturity</u></b> <b><u>(December 1)</u></b>	<b><u>Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Yield</u></b>	<b><u>Price</u></b>	<b><u>CUSIP No.</u></b> <sup>+</sup>
2014	\$4,665,000	2.500%	0.280%	102.583	709221TJ4
2020	6,445,000	5.000%	2.490%	116.378	709221TK1
2021	6,780,000	5.000%	2.830%	115.720	709221TL9
2024	9,895,000	5.000%	3.510% <sup>‡</sup>	112.643 <sup>‡</sup>	709221TM7

**PENNSYLVANIA TURNPIKE COMMISSION**  
**\$32,035,000 OIL FRANCHISE TAX SUBORDINATED REVENUE**  
**REFUNDING BONDS, SERIES B OF 2013**

**MATURITY SCHEDULE**

<b><u>Maturity</u></b> <b><u>(December 1)</u></b>	<b><u>Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Yield</u></b>	<b><u>Price</u></b>	<b><u>CUSIP No.</u></b> <sup>+</sup>
2014	\$3,870,000	2.000%	0.300%	101.978	709221TN5
2015	3,950,000	5.000%	0.750%	109.115	709221TP0
2020	5,250,000	5.000%	2.770%	114.401	709221TQ8
2021	5,515,000	5.000%	3.080%	113.766	709221TR6
2024	6,490,000	5.000%	3.760% <sup>‡</sup>	110.391 <sup>‡</sup>	709221TS4
2025	6,960,000	5.000%	3.970% <sup>‡</sup>	108.542 <sup>‡</sup>	709221TT2

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<sup>+</sup> The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the Commission or the Underwriters, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. None of the Commission or the Underwriters has agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

<sup>‡</sup> Price/yield to first call date December 1, 2023.

# **PENNSYLVANIA TURNPIKE COMMISSION**

## **COMMISSIONERS**

WILLIAM K. LIEBERMAN  
Chairman

A. MICHAEL PRATT  
Vice Chairman

PASQUALE T. DEON, SR.  
Secretary - Treasurer

BARRY J. SCHOCH  
Commissioner

SEAN F. LOGAN  
Commissioner

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## **ADMINISTRATION**

MARK P. COMPTON  
Chief Executive Officer

CRAIG R. SHUEY  
Chief Operating Officer

NIKOLAUS H. GRIESHABER  
Chief Financial Officer

BRADLEY J. HEIGEL  
Chief Engineer

DOREEN A. MCCALL  
Chief Counsel

DAVID A. GENTILE  
Chief Compliance Officer

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THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.  
Trustee and Authenticating Agent

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MANUFACTURERS AND TRADERS TRUST COMPANY  
Paying Agent

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PUBLIC FINANCIAL MANAGEMENT, INC.  
Co-Financial Advisor

G-ENTRY PRINCIPLE, P.C.  
Co-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 2013 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. This Official Statement will be made available through the Electronic Municipal Market Access System (“EMMA”), which is the sole Nationally Recognized Municipal Securities Information Repository.

The 2013 Bonds are not and will not be registered under the Securities Act of 1933, as amended, 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 United States Securities and Exchange Commission (the “SEC”) 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.

No quotations from or summaries or explanations of provisions of law and documents herein purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. This Official Statement is not to be construed as a contract or agreement between the Commission and the purchasers or holders of any of the securities described herein. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly, so stated, are intended merely as estimates or opinions and not as representations of fact. The cover page hereof, list of officials, this page and the Appendices attached hereto are part of this Official Statement.

If and when included in this Official Statement, the words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” “assumes” and analogous expressions are intended to identify forward-looking statements, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties, which could affect the amount of Oil Franchise Tax revenues collected by the Commission, include, among others, changes in economic conditions and various other events, conditions and circumstances, many of which are beyond the control of the Commission. Such forward-looking statements speak only as of the date of this Official Statement. The Commission disclaims any obligation or undertaking to release publicly any updates or revision to any forward-looking statement contained herein to reflect any changes in the Commission’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2013 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT NOTICE. THE COMMISSION RESERVES THE RIGHT TO INCREASE OR DECREASE THE SIZE OF THIS OFFERING SUBJECT TO PREVAILING MARKET CONDITIONS.**

**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 2013 BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.**

**The CUSIP (Committee on Uniform Securities Identification Procedures) numbers for the 2013 Bonds shown on the inside cover page hereof have been assigned by an organization not affiliated with the Commission or the Underwriters, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. None of the Commission or the Underwriters has agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP number set forth herein.**

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APPENDIX B – AUDITED 2013 AND 2012 FINANCIAL STATEMENTS

APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

APPENDIX D – FORM OF OPINION OF CO-BOND COUNSEL

## OFFICIAL STATEMENT

**PENNSYLVANIA TURNPIKE COMMISSION**  
**\$27,785,000 OIL FRANCHISE TAX SENIOR REVENUE**  
**REFUNDING BONDS, SERIES A OF 2013**

**PENNSYLVANIA TURNPIKE COMMISSION**  
**\$32,035,000 OIL FRANCHISE TAX SUBORDINATED REVENUE**  
**REFUNDING BONDS, SERIES B OF 2013**

### INTRODUCTION

This Official Statement, which includes the cover page, the inside front cover and the Appendices hereto, is furnished by the Pennsylvania Turnpike Commission (the “*Commission*”) in connection with the issuance of \$59,820,000 aggregate principal amount of Pennsylvania Turnpike Commission Oil Franchise Tax Revenue Refunding Bonds, consisting of \$27,785,000 aggregate principal amount Oil Franchise Tax Senior Revenue Refunding Bonds, Series A of 2013 (the “*2013A Bonds*”), and \$32,035,000 aggregate principal amount Oil Franchise Tax Subordinated Revenue Refunding Bonds, Series B of 2013 (the “*2013B Bonds*,” and together with the 2013A Bonds, the “*2013 Bonds*”).

Certain information concerning the Commission is attached hereto as APPENDIX A. Audited financial statements of the Commission for the fiscal years ended May 31, 2013 and May 31, 2012 are attached hereto as APPENDIX B. A summary of certain provisions of the Indenture (as defined below) is attached hereto as APPENDIX C. A form of the opinion of Co-Bond Counsel to be delivered in connection with the issuance of the 2013 Bonds is attached hereto as APPENDIX D.

All capitalized terms not otherwise defined herein shall have the same meanings ascribed to them in the definitions set forth in APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - DEFINITIONS OF CERTAIN TERMS.” All references herein to the Enabling Acts (as defined below), the 2013 Bonds, the Indenture and the Disclosure Undertaking (as defined herein) are qualified in their entirety by reference to the complete texts thereof. Copies of drafts of such documents, except for the Enabling Acts, may be obtained during the initial offering period from the principal offices of the Underwriters and, thereafter, executed copies may be obtained from The Bank of New York Mellon Trust Company, N.A., as successor trustee (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.

### Purpose

The 2013A Bonds are being issued to provide funds to finance the costs of (i) refunding a portion of the Commission’s outstanding Oil Franchise Tax Senior Revenue Bonds, Series A of 2003 (the “*Refunded Series A Bonds*”) and (ii) issuing the 2013A Bonds.

The 2013B Bonds are being issued to provide funds to finance the costs of (i) refunding a portion of the Commission's outstanding Oil Franchise Tax Subordinated Revenue Bonds, Series B of 2003 (the "**Refunded Series B Bonds**") and (ii) issuing the 2013B Bonds. See "PLAN OF FINANCING."

## **Pennsylvania Turnpike Commission**

The Commission is an instrumentality of the Commonwealth of Pennsylvania (the "**Commonwealth**") created by the Enabling Acts, with the power to construct, operate and maintain the System (as defined below) and to perform other functions authorized by Act 44 (as defined below). Its composition, powers, duties, functions, duration and all other attributes are derived from the Enabling Acts as amended and supplemented from time to time. See APPENDIX A - "THE PENNSYLVANIA TURNPIKE COMMISSION" herein. Except as provided therein, the Enabling Acts may be modified, extended, suspended or terminated at any time by further legislation.

## **Indenture and Enabling Acts**

The 2013 Bonds are being issued pursuant to a Sixth Supplemental Trust Indenture dated as of October 1, 2013 ("**Supplemental Indenture No. 6**") between the Commission and the Trustee, which supplements a Trust Indenture dated as of August 1, 1998 (the "**Original Indenture**"), as amended and supplemented by a First Supplemental Trust Indenture dated as of August 1, 2003 (the "**First Supplemental Indenture**"), a Second Supplemental Trust Indenture dated as of August 1, 2003 (the "**Second Supplemental Indenture**"), a Third Supplemental Trust Indenture dated as of November 1, 2006 (the "**Third Supplemental Indenture**"), a Fourth Supplemental Trust Indenture dated as of April 15, 2008 (the "**Fourth Supplemental Indenture**") and a Fifth Supplemental Trust Indenture dated as of October 1, 2009 (the "**Fifth Supplemental Indenture**" and collectively with the Original Indenture, the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, and the Supplemental Indenture No. 6, the "**Indenture**"), and pursuant to and authorized by an Act of the General Assembly of Pennsylvania approved July 18, 2007, P. L. 169, No. 44 ("**Act 44**") and various Acts of the General Assembly approved on several dates, including the Act of May 21, 1937, P. L. 774, Act 211; 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; the Act of August 14, 1951, P. L. 1232; and the Act of September 30, 1985, P. L. 240, No. 61 ("**Act 61**") to the extent not repealed by Act 44; and the Act of August 5, 1991, P.L. 238, No. 26 ("**Act 26**") (collectively, the "**Enabling Acts**"), and the Resolution adopted by the Commission on August 19, 2013 (the "**Bond Resolution**"). The Act of April 17, 1997, No. 3 ("**Act 3**") revises certain of the provisions of Act 26 which contains the appropriation of the Commission Allocation (as defined herein) of the Oil Franchise Tax. See "OIL FRANCHISE TAX - Act 3."

## **Security**

The 2013 Bonds are limited obligations of the Commission payable solely from (i) all Tax Revenues (as defined in "SECURITY FOR THE 2013 BONDS - Additional Bonds"), (ii) the Commission's right to receive the Commission Allocation and any portion of the Commission Allocation actually received by the Commission, (iii) all moneys deposited into accounts or funds created by the Indenture (other than the Subordinated Bonds Debt Service Reserve Fund which is pledged only for the benefit of the Subordinated Bonds, including the 2013B Bonds, and other than the Rebate Fund), (iv) all Swap Receipts, (v) the Issuer Subsidy\* (as defined herein), and (vi) all investment earnings on all moneys held in accounts and funds established by the Indenture (other than the Rebate Fund and other than

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\* See "CERTAIN RISK FACTORS; Reductions in federal subsidy payable to the Commission for its outstanding Build America Bonds due to sequestration."



earnings on moneys held in the Subordinated Bonds Debt Service Reserve Fund which are pledged only for the benefit of the Subordinated Bonds). The aforementioned (i), (ii), (iii), (iv), (v) and (vi) are collectively herein referred to as the “**Trust Estate.**” See “OIL FRANCHISE TAX.” Pursuant to the Indenture, the Trust Estate has been pledged and assigned by the Commission to the Trustee to pay principal of and interest on the Bonds, any amounts due under Parity Swap Agreements, Reimbursement Obligations (as such terms are defined herein) and any amounts due under the Insurance Agreement. The Commission has irrevocably directed the Treasurer of the Commonwealth (the “**State Treasurer**”) to make payment of the Commission Allocation directly to the Trustee, and has directed the Trustee, upon receipt of such amounts, to deposit the moneys, as received, into the Revenue Fund created under the Indenture.

Under the Indenture, prior to an Event of Default, the Issuer Subsidy will be held solely for and applied to debt service on the Oil Franchise Tax Build America Bonds (as defined herein). See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Issuer Subsidy Funds.”

The General Assembly has allocated a portion of the Oil Franchise Tax imposed by the Commonwealth and appropriated it to the Commission. This allocation consists of the revenues from 14% of the additional 55 mills of the Oil Franchise Tax imposed beginning in 1991 (the “**Commission Allocation**”). The Oil Franchise Tax receipts, including the Commission Allocation, are to be deposited into the Commonwealth’s Motor License Fund each month. See “OIL FRANCHISE TAX.”

Senior Bonds, Additional Senior Bonds, certain amounts due on the Parity Swap Agreements, and all amounts due with respect thereto under the Insurance Agreement (defined hereinafter) or successor agreement thereto are senior in right of payment and security to the Subordinated Bonds; provided, however, that the Subordinated Bonds have a first lien on the Subordinated Bonds Debt Service Reserve Fund. See “SECURITY FOR THE 2013 BONDS - Security for the 2013 Bonds; Remedies and - Additional Bonds” and APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - DEFINITIONS OF CERTAIN TERMS.”

In addition to the other security described herein, there is a Subordinated Bonds Debt Service Reserve Fund for the benefit of the holders of the Subordinated Bonds. The Subordinated Bonds Debt Service Reserve Requirement is an amount equal to one-half the maximum Principal and Interest Requirements for any succeeding Fiscal Year on account of the Subordinated Bonds. THERE IS NO DEBT SERVICE RESERVE FUND FOR THE SENIOR BONDS. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - DEFINITIONS OF CERTAIN TERMS” and “SECURITY FOR THE 2013 BONDS - Subordinated Bonds Debt Service Reserve Fund.” Unlike the Subordinated Bonds, Senior Bonds have no dedicated debt service reserve fund, although excess balances in the Revenue Fund are transferred from time to time to an Oil Franchise Tax General Fund held by the Trustee which is available, among other things, to make up deficiencies in the various funds and accounts established under the Indenture. See “SECURITY FOR THE 2013 BONDS - Revenue Fund Excess Balance and Oil Franchise Tax General Fund.”

THE 2013 BONDS SHALL NOT BE DEEMED TO BE A DEBT OF THE COMMONWEALTH OR A PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH. THE 2013 BONDS ARE OBLIGATIONS OF THE COMMISSION PAYABLE SOLELY FROM THE TRUST ESTATE, INCLUDING BUT NOT LIMITED TO, THAT PORTION OF THE OIL FRANCHISE TAX PAID TO THE COMMISSION OR THE TRUSTEE BY THE COMMONWEALTH, AND CERTAIN FUNDS HELD UNDER THE INDENTURE AND THE EARNINGS THEREON.

## Existing Obligations

The 2013A Bonds will be Senior Bonds (as defined below), and the 2013B Bonds will be Subordinated Bonds (as defined below), with all Bonds (as defined below) now or hereafter issued under or secured by the Indenture consisting of all senior bonds (the “**Senior Bonds**”) and all subordinated bonds (the “**Subordinated Bonds**,” together with the Senior Bonds and all bonds to be issued under the Indenture, the “**Bonds**”). The Bonds issued by the Commission under the Indenture and currently outstanding as of June 1, 2013, are the following:

- ❖ \$124,730,000 Oil Franchise Tax Senior Revenue Bonds, Series A of 2003 (“**2003 Fixed Rate Senior Bonds**”), of which \$35,770,000 was outstanding;
- ❖ \$197,955,000 Oil Franchise Tax Subordinated Revenue Bonds, Series B of 2003 (“**2003 Fixed Rate Subordinated Bonds**” and, together with the 2003 Fixed Rate Senior Bonds, the “**2003 Fixed Rate Bonds**”), of which \$55,185,000 was outstanding;
- ❖ \$160,000,000 aggregate principal amount of Oil Franchise Tax Senior Revenue Bonds, Series C of 2003 (the “**2003C Senior Bonds**”) of which \$160,000,000 was outstanding;
- ❖ \$98,705,000 aggregate principal amount of Oil Franchise Tax Senior Revenue Refunding Bonds, Series A of 2006 (the “**2006 Senior Bonds**”) of which \$90,665,000 was outstanding;
- ❖ \$141,970,000 aggregate principal amount of Oil Franchise Tax Subordinated Revenue Bonds, Series B of 2006 (the “**2006 Subordinated Bonds**”) of which \$136,375,000 was outstanding;
- ❖ \$21,550,000 Oil Franchise Tax Senior Revenue Bonds, Series A of 2009 (Tax-Exempt) (the “**2009A Senior Bonds**”), of which \$17,370,000 was outstanding;
- ❖ \$127,170,000 Oil Franchise Tax Senior Revenue Bonds, Series B of 2009 (Federally Taxable - Issuer Subsidy - Build America Bonds) (the “**2009B Senior Bonds**”), of which \$127,170,000 was outstanding;
- ❖ \$15,461,246 Oil Franchise Tax Senior Revenue Bonds, Series C of 2009 (Tax-Exempt Capital Appreciation Bonds) (the “**2009C Senior Bonds**,” together with the 2009A Senior Bonds and the 2009B Senior Bonds, collectively the “**2009 Senior Bonds**”), of which \$18,693,254 was outstanding (including compounded amounts as of June 1, 2013);
- ❖ \$31,560,000 Oil Franchise Tax Subordinated Revenue Bonds, Series D of 2009 (Tax-Exempt) (the “**2009D Subordinated Bonds**”), of which \$27,890,000 was outstanding; and
- ❖ \$102,505,000 Oil Franchise Tax Subordinated Revenue Bonds, Series E of 2009 (Federally Taxable – Issuer Subsidy – Build America Bonds) (the “**2009E Subordinated Bonds**,” together with the 2009D Subordinated Bonds, collectively the “**2009 Subordinated Bonds**”), of which \$102,505,000 was outstanding. The 2009B Senior Bonds and the 2009E Subordinated Bonds are referred to collectively as the “**Oil Franchise Tax Build America Bonds**.”

A portion of the 2003 Fixed Rate Bonds will be refunded by the 2013 Bonds. See “PLAN OF FINANCING.”

The Commission has entered into various interest rate swap agreements which constitute Parity Swap Agreements under the Indenture.

## **DESCRIPTION OF THE 2013 BONDS**

### **General**

The 2013 Bonds will bear interest at fixed rates and will mature, subject to prior redemption, on the dates and in the amounts set forth on the inside front cover page of this Official Statement. Interest on the 2013 Bonds will accrue from their Dated Date and will be payable semi-annually to maturity (or earlier redemption) on each June 1 and December 1, commencing on December 1, 2013 (each, an “*Interest Payment Date*”).

The 2013 Bonds will be issued in fully registered form in Authorized Denominations (as described below). The principal of and the redemption premium, if any, on all 2013 Bonds shall be payable by check or draft at maturity or upon earlier redemption to the persons in whose names such 2013 Bonds are registered on the Bond Register at the maturity or redemption date thereof, upon the presentation and surrender of such 2013 Bonds at the designated office of the Trustee or of any Paying Agent named in the 2013 Bonds. Interest on the 2013 Bonds shall be paid to the person whose name appears on the Bond Register as the holder thereof as of the close of business on the Record Date (as defined below) for each Interest Payment Date. Payment of the interest on the 2013 Bonds shall be made by check mailed by first class mail to such holder at its address as it appears on such Bond Register or at such other address as is furnished to the Trustee in writing or, upon the written request of any holder of at least \$1,000,000 in aggregate principal amount of the 2013 Bonds, submitted to the Trustee and the Paying Agent not later than ten Business Days before the applicable Record Date, by electronic transfer in immediately available funds to an account within the United States designated by such holder. If the Commission defaults in the payment of interest due on any Interest Payment Date, Defaulted Interest (as defined below) will be payable to the person in whose name such 2013 Bond is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest. The Commission shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each 2013 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 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 2013 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.

Upon original issuance, the 2013 Bonds will be registered in the name of and held by Cede & Co., as registered holder and nominee for DTC. The 2013 Bonds initially will be issued as one fully registered certificate for each maturity and series. Purchases of the 2013 Bonds will initially be made in book-entry form. See “DESCRIPTION OF THE 2013 Bonds – Book-Entry Only System” herein. As long as the 2013 Bonds are registered in the name of DTC or its nominee, Cede & Co., payments of the principal of, redemption premium, if any, and interest on the 2013 Bonds will be paid directly to Cede & Co. by wire transfer by the Paying Agent on each Interest Payment Date. While the book-entry only

system is in effect, transfers and exchanges of the 2013 Bonds will be effected through DTC's book-entry system.

DTC may determine to discontinue providing its service with respect to the 2013 Bonds at any time by giving notice to the Commission and discharging its responsibilities with respect thereto under applicable law or the Commission may determine to discontinue the system of book-entry-only transfers through DTC (or a successor securities depository). Under such circumstances, 2013 Bonds will be authenticated and delivered as provided in the Indenture to the Beneficial Owners of the 2013 Bonds, who shall then become the registered owners thereof.

If the book-entry-only system is discontinued and the Beneficial Owners become registered owners of the 2013 Bonds, the Commission shall immediately advise the Trustee in writing of the procedures for transfer of the 2013 Bonds from book-entry-only form to a fully registered form.

The "**Record Date**" for determining the Owner entitled to payment of interest with respect to the 2013 Bonds on any given Interest Payment Date is the fifteenth (15<sup>th</sup>) day (whether or not a Business Day) of the month immediately preceding such Interest Payment Date.

In the event interest on any 2013 Bond is not paid when due ("**Defaulted Interest**"), the provisions relating to Defaulted Interest under the Supplemental Indenture No. 6 shall apply. See APPENDIX C, "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – THE INDENTURE" for information with respect to the payment of Defaulted Interest.

So long as the 2013 Bonds are in book-entry only form, the principal and redemption price of, and interest on, such 2013 Bonds is payable by check mailed or wire transferred to Cede & Co., as nominee for DTC and Registered Owner of the 2013 Bonds, for redistribution by DTC to its Participants and in turn to Beneficial Owners as described under "DESCRIPTION OF THE 2013 BONDS – Book-Entry Only System."

**Authorized Denominations.** The 2013 Bonds will be issued as fully registered bonds in authorized denominations of \$5,000 and any integral multiple thereof.

**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 2013 Bond shall be registered on the Bond Register shall be deemed and regarded as the absolute owner of such 2013 Bond for all purposes, and payment of or on account of the principal of and interest on any such 2013 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 2013 Bond, including the interest thereon, to the extent of the sum or sums so paid.

Any 2013 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 2013 Bond a new 2013 Bond or 2013 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 Commission, the Securities Depository or the Trustee may charge an amount sufficient to reimburse it for any tax or other governmental charge required to be paid in connection with any transfer or exchange. The Trustee shall not be required to: (i) transfer or exchange any 2013 Bond during a period beginning at the opening of business fifteen (15) days before the day of the mailing of a notice of

redemption of such 2013 Bond and ending at the close of business on the day of such mailing; or (ii) transfer or exchange any 2013 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 2013 Bond and ending at the close of business on the relevant Interest Payment Date therefor. See also “DESCRIPTION OF THE 2013 BONDS - Book-Entry Only System” herein for further information regarding registration, transfer and exchange of the 2013 Bonds.

The Indenture, and all provisions thereof, are incorporated by reference in the text of the 2013 Bonds, and the 2013 Bonds provide that each Registered Owner, Beneficial Owner, Participant or Indirect Participant (as such terms are defined hereinafter), by acceptance of a 2013 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 2013 Bond.

## **Redemption of 2013 Bonds**

### **Optional Redemption.**

2013A Bonds. The 2013A Bonds maturing on December 1, 2024, are subject to redemption prior to maturity at any time on or after December 1, 2023, as a whole or in part (and if in part, in such order of maturity as directed by the Commission and within a maturity by lot), at the option of the Commission at par, plus accrued interest to the date of redemption, all in the manner provided by the Indenture.

2013B Bonds. The 2013B Bonds maturing on or after December 1, 2024, are subject to redemption prior to maturity at any time on or after December 1, 2023, as a whole or in part (and if in part, in such order of maturity as directed by the Commission and within a maturity by lot), at the option of the Commission at par, plus accrued interest to the date of redemption, all in the manner provided by the Indenture.

### **Selection of 2013 Bonds to be Redeemed.**

2013 Bonds shall be redeemed only in Authorized Denominations. Any partial optional redemption of the 2013 Bonds may be made in any order of maturity and in any principal amount within a maturity as designated by the Commission. The particular 2013 Bonds within a maturity to be redeemed in part shall be selected by the Trustee by lot or in such manner as the Trustee in its discretion may determine.

In the case of a partial redemption of 2013 Bonds when 2013 Bonds of a series 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 2013 Bond of the minimum Authorized Denomination. If it is determined that a portion, but not all, of the principal amount represented by any 2013 Bond is to be selected for redemption, then upon notice of intention to redeem such portion, the Owner of such 2013 Bond or such Owner’s attorney or legal representative shall forthwith present and surrender such 2013 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 2013 Bond or 2013 Bonds of the aggregate principal amount of the unredeemed portion of the principal amount of such 2013 Bond. If the Owner of any such 2013 Bond shall fail to present such 2013 Bond to the Trustee for payment and exchange as aforesaid, said 2013 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 thirty (30) days and not more than sixty (60) days prior to the redemption date to each Registered Owner of the 2013 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. Official notice of redemption having been given as aforesaid, the 2013 Bonds or portions of 2013 Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price specified therein, and from and after such date (unless the Commission shall default in the payment of the redemption price) such 2013 Bonds or portions of 2013 Bonds shall cease to bear interest.

As long as DTC remains the sole Registered Owner of the 2013 Bonds, notice of redemption shall be sent to DTC as provided in the Indenture. 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 2013 Bonds called for redemption or of any other action premised on such notice. See “BOOK – ENTRY ONLY SYSTEM.”

An optional redemption 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/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 redemption shall be of no effect if such moneys are not so deposited or if the notice is rescinded as described below.

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 2013 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.

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 2013 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.

### **Book-Entry Only System**

The Depository Trust Company (“***DTC***”), New York, New York, will act as securities depository for the 2013 Bonds. The 2013 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 2013 Bond certificate will be issued in the aggregate principal amount of each maturity of each series of the 2013 Bonds, 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 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 a Standard & Poor's rating of AA+. 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).

Purchases of 2013 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2013 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2013 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 2013 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 2013 Bonds, except in the event that use of the book-entry system for the 2013 Bonds is discontinued.

To facilitate subsequent transfers, all 2013 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 2013 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 2013 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2013 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.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants 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 2013 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2013 Bonds, such as redemptions, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of 2013 Bonds may wish to ascertain that the nominee holding the 2013 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 2013 Bonds within a maturity of a series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2013 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 2013 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, premium, if any, and interest on the 2013 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 dates 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. Payments of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are 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 2013 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, 2013 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, 2013 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 DIRECT OR INDIRECT 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 DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DIRECT PARTICIPANT, OR BY ANY DIRECT OR INDIRECT 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 2013 BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DIRECT PARTICIPANT, OR BY ANY DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL



OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN HOLDERS OR OWNERS OF BOOK-ENTRY 2013 BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BOOK-ENTRY 2013 BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BOOK-ENTRY 2013 BONDS.

In the event that the Book-Entry Only System is discontinued and the Beneficial Owners become Registered Owners of the 2013 Bonds, the 2013 Bonds will be transferable in accordance with the provisions of the Indenture.

## **SECURITY FOR THE 2013 BONDS**

### **Sources of Payment; Oil Franchise Tax**

Funds received by the Trustee from Oil Franchise Tax revenues in the amount of the Commission Allocation are the primary source of payment of the Bonds. The Commission Allocation of the Oil Franchise Tax consists of 14% of the additional 55 mills of the Oil Franchise Tax which 55 mills became effective pursuant to Act 26. Information concerning the Oil Franchise Tax, its collection and distribution to the Commission and the Commonwealth's Motor License Fund are described in this Official Statement under the caption "OIL FRANCHISE TAX."

The 2013 Bonds are limited obligations of the Commission payable solely from the Trust Estate which consists of the following: (i) all Tax Revenues, (ii) the Commission's right to receive the Commission Allocation and any portion of the Commission Allocation actually received by the Commission, (iii) all moneys deposited into accounts or funds created by the Indenture (other than the Subordinated Bonds Debt Service Reserve Fund which is pledged only for the benefit of the Subordinated Bonds and other than the Rebate Fund), (iv) all Swap Receipts, (v) the Issuer Subsidy,\* and (vi) all investment earnings on all moneys held in accounts and funds established by the Indenture (other than earnings on moneys held in the Subordinated Bonds Debt Service Reserve Fund which are pledged only for the benefit of the Subordinated Bonds and other than the Rebate Fund).

Under the Indenture, prior to an Event of Default, the Issuer Subsidy will be held solely for and applied to debt service on the Oil Franchise Tax Build America Bonds. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Issuer Subsidy Funds."

**The Commission's revenues are principally derived from three separate sources: toll revenues from the operation of the System; revenue derived from a portion of the Commonwealth's Oil Franchise Tax; and revenue derived from a portion of the Commonwealth's vehicle registration fee revenues.**

**THE COMMISSION'S TOLLS 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 PLEDGED FOR THE 2013 BONDS. THE TRUST ESTATE ALSO EXCLUDES ALL MONEYS HELD IN THE REBATE FUND.**

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\* See "CERTAIN RISK FACTORS; Reductions in federal subsidy payable to the Commission for its outstanding Build America Bonds due to sequestration."

**THE COMMISSION'S ALLOCATION OF THE OIL FRANCHISE TAX IS THE ONLY REVENUE SOURCE FOR THE 2013 BONDS.**

**THE 2013 BONDS SHALL NOT BE DEEMED TO BE A DEBT OF THE COMMONWEALTH OR A PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH.**

**Security for the 2013 Bonds; Remedies**

The Trust Estate is pledged in the Indenture to the Trustee as security for the payment of the Bonds and the interest thereon and as security for the satisfaction of any other obligation assumed by the Commission in connection with the 2013 Bonds, including any Parity Swap Agreements (as defined below) and Reimbursement Obligations (as defined below).

A Parity Swap Agreement means an interest rate swap agreement, currency swap agreement, forward payment conversion agreement, futures contract, 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 under which some or all of the amounts payable by the Commission or the Trustee pursuant to such agreement may be secured by the Tax Revenues on parity with the Bonds to which such agreement relates. Under the Indenture, amounts payable by the Commission on such a Parity Swap Agreement shall be secured on a parity basis with the Bonds to which such contract relates but only to the extent so provided in such contract and only if, among other requirements, each Rating Agency which then has a rating assigned to any Bond that would be secured on parity with the Commission's obligation under said contract confirms in writing to the Trustee that the Commission's execution and delivery of such contract will not result in a reduction or withdrawal of such rating.

A Reimbursement Obligation means an obligation of the Commission pursuant to a Reimbursement Agreement to repay any amounts drawn under a Credit Facility, to pay any interest on such drawn amounts pursuant to such Reimbursement Agreement and to pay any Bank Fee owed pursuant thereto. A Reimbursement Agreement means an agreement between the Commission and one or more Banks pursuant to which, among other things, such Bank or Banks issues 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.

Senior Bonds, Additional Senior Bonds, certain amounts payable under Parity Swap Agreements relating to Senior Bonds, and all amounts due under the Insurance Agreement (hereinafter defined) relating to Senior Bonds are senior in right of payment and security to the Subordinated Bonds; provided, however, that the Subordinated Bonds have a first lien on the Subordinated Bonds Debt Service Reserve Fund. Certain amounts payable under Parity Swap Agreements relating to the Subordinated Bonds, and all amounts due under the Insurance Agreement relating to the Subordinated Bonds, are on parity with the debt service on the Subordinated Bonds. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – THE INDENTURE." Upon any failure to make a principal, interest, or redemption payment with respect to the Senior Bonds, the Trustee may, and upon the written request of the holders of not less than 25% in principal amount of the Senior Bonds then outstanding shall, declare the principal of all of the Bonds, including the Senior Bonds and the Subordinated Bonds, to be due and payable. **The failure to make any payment with respect to the Subordinated Bonds shall not constitute a default with respect to the Senior Bonds.** Upon any other default specified in the Indenture including any failure to make a principal, interest or redemption payment with respect to the Subordinated Bonds, the Trustee may proceed, and upon the written request of the holders of not less than

25% in principal amount of the Bonds Outstanding (provided that if said event of default pertains only to one series of Bonds, then the written request of the holders of 25% or more of the principal amount of such series of Bonds) shall proceed to protect and enforce its rights and the rights of the Bondholders under the laws of the Commonwealth or under the Indenture by such suits, actions, or special proceedings in equity or at law either for the specific performance of any covenant or agreement in the Indenture or in aid of execution of any power granted in the Indenture or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, shall deem reasonable or necessary to protect and enforce such rights. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – THE INDENTURE - Remedies.”

In connection with the initial issuance of the 2003 Fixed Rate Bonds and the 2003C Senior Bonds (collectively, the “**2003 Bonds**”) and certain Parity Swap Agreements in the initial aggregate notional amount of \$160,000,000 entered into by the Commission with respect to the its 2003C Senior Bonds, the Commission and MBIA Insurance Corporation (“**MBIA**”) entered into an Insurance and Reimbursement Agreement dated as of August 1, 2003 (the “**Insurance Agreement**”), under which MBIA agreed to issue its financial guaranty insurance policies insuring the timely payment of amounts due on the 2003 Bonds (the “**2003 Bond Insurance Policies**”) and its insurance policies guaranteeing the payment of certain amounts due by the Commission to the counterparties under the Parity Swap Agreements entered into in connection with the 2003C Senior Bonds (the “**Swap Policies**”), and the Commission agreed, among other things, to reimburse MBIA for any losses that it may suffer as a result of the failure of the Commission to perform or comply with the covenants and conditions contained in the Insurance Agreement and the Related Documents (“**Related Documents**” being the 2003 Bonds, the Indenture, the Parity Swap Agreements related to the 2003 Bonds and the various other agreements executed in connection with the issuance of the 2003 Bonds) or enforcing any covenants or conditions under the Insurance Agreement or the Related Documents. Payments which the Commission expressly agreed to make to MBIA include, among others, the payment of premiums due for issuance of the bond insurance and swap policies and the reimbursement of all payments made by MBIA under the term of the 2003 Bond Insurance Policies or the Swap Policies. Payments due by the Commission to MBIA under the Insurance Agreement relating to the 2003 Fixed Rate Senior Bonds and the 2003C Senior Bonds are secured under the Indenture on a parity basis with Senior Bonds, Additional Senior Bonds, and certain amounts payable under Parity Swap Agreements, and are senior in right of payment and security to the Subordinated Bonds. Payments due by the Commission to MBIA under the Insurance Agreement relating to the 2003 Fixed Rate Subordinated Bonds are secured under the Indenture on a parity basis with Subordinated Bonds, Additional Subordinated Bonds, and certain amounts payable under Parity Swap Agreements relating to the Subordinated Bonds. Pursuant to a novation of one swap agreement, the Swap Policy related thereto has been cancelled.

Payments due by the Commission on the two constant maturity swaps entered into by the Commission with respect to the 2003C Senior Bonds are not insured.

Upon the occurrence and continuance of a debt service or mandatory redemption payment event of default described in the Indenture, the Trustee shall, and upon the occurrence and continuance of any other event of default, the Trustee may (and upon the written direction of the Commission or the holders of not less than 25% of the outstanding principal amount of either the Senior Bonds or the Subordinated Bonds, shall) appoint a co-trustee to represent the holders of the Subordinated Bonds.

### **Flow of Funds**

The Oil Franchise Tax is collected by the Commonwealth Department of Revenue (the “**Department of Revenue**”) and deposited into the Motor License Fund of the Commonwealth held by the Department of Transportation. Once each month on or prior to the 20th day of the month, the Department

of Transportation pays to the Commission the Commission Allocation collected and deposited into the Motor License Fund during the immediately preceding calendar month; provided, however, that if in any year the actual Commission Allocation to be distributed to the Commission exceeds the amount included in the Governor's executive authorization at the beginning of such year, distribution of the excess amount to the Commission may be delayed until a new executive authorization is obtained, which may not occur until the beginning of the next fiscal year of the Commonwealth. The Commission has irrevocably directed the Treasurer to make payment of all such amounts directly to the Trustee, and the Trustee, upon receipt of such amounts, shall deposit the moneys, as received, into the Revenue Fund created under the Indenture. See "OIL FRANCHISE TAX - Commission Allocation."

The Indenture also creates a Senior Bonds Debt Service Fund and a Subordinated Bonds Debt Service Fund. Within the Senior Bonds Debt Service Fund, the Indenture establishes Interest Accounts, Principal Accounts, and the Insured Swap Payment Account. Within the Subordinated Bonds Debt Service Fund, the Indenture establishes Interest Accounts and Principal Accounts. The Commission Allocation and any other Tax Revenues received by the Trustee, whether directly from the Commonwealth or received by the Commission and paid to the Trustee, are to be deposited into the Revenue Fund. Additionally, Subsidy Payments are to be deposited into the Issuer Subsidy Fund for transfer to the applicable Debt Service Fund prior to the next applicable Interest Payment Date. Swap Receipts are to be deposited into the Revenue Fund. The Indenture provides that the Trustee shall withdraw from the Revenue Fund and deposit to the applicable accounts in the Debt Service Funds, on an equal monthly basis, such amounts as shall be sufficient to make the required semi-annual interest payments and the required annual redemption or maturity payments on the Bonds.

The Trustee shall withdraw from the Revenue Fund and deposit into the applicable Fund, on or before the last Business Day of each calendar month, or at such other time as withdrawal is required under a Parity Swap Agreement or the Insurance Agreement, in the following order of priority:

(1) In the same order of priority, (a) a deposit to the Interest Account of the Senior Bonds Debt Service Fund in an amount equal to one-sixth of the interest due on the Senior Bonds on the next succeeding Interest Payment Date (including any amount due to MBIA in respect thereto under the terms of the Insurance Agreement) and the Insured Swap Payment (regularly scheduled payments and Insured Termination Payments) payable to the Parity Swap Agreement Counterparty pursuant to the Parity Swap Agreements; (b) a deposit to the Principal Account of the Senior Bonds Debt Service Fund in an amount equal to one-twelfth of the amount necessary to pay the principal amount of any Senior Bonds maturing on the next succeeding maturity date occurring on or before the second Interest Payment Date following such deposit; and (c) without duplication, a deposit to the Senior Bonds Sinking Fund in an amount equal to one-twelfth of the principal amount required on the next succeeding mandatory redemption date of the Senior Bonds occurring on or before the second Interest Payment Date following such deposit;

(2) In the same order of priority, (a) a deposit to the Interest Account of the Subordinated Bonds Debt Service Fund in an amount equal to one-sixth of the interest due on the Subordinated Bonds on the next succeeding Interest Payment Date (including any amounts due MBIA with respect thereto under the terms of the Insurance Agreement); (b) a deposit to the Principal Account of the Subordinated Bonds Debt Service Fund in an amount equal to one-twelfth of the amount necessary to pay the principal amount of any Subordinated Bonds maturing on the next succeeding maturity date occurring on or before the second Interest Payment Date following such deposit; and (c) without duplication, a deposit to the Subordinated Bonds Sinking Fund in an amount equal to one-twelfth of the principal amount required on the next succeeding mandatory redemption date of the Subordinated Bonds occurring on or before the second Interest Payment Date following such deposit; and

After making the deposits described above, on or before the Business Day immediately preceding each Interest Payment Date, the Trustee shall make from the Revenue Fund a deposit to the Subordinated Bonds Debt Service Reserve Fund the amount, if any, required to make the funds deposited in the Subordinated Bonds Debt Service Reserve Fund equal to the Subordinated Bonds Debt Service Reserve Requirement to be made on or before the Business Day immediately preceding an Interest Payment Date.

The Trustee shall make payments from the applicable Funds, without further authorization from the Commission, for the purposes for which such Funds were established.

After making all the aforesaid deposits, the Trustee is required to transfer from the Revenue Fund, on or before the Business Day immediately preceding an Interest Payment Date, to the credit of the Oil Franchise Tax General Fund the balance, if any, in excess of \$10,000,000 remaining in the Revenue Fund. The current balance in the Oil Franchise Tax General Fund is approximately \$145.6 million. Funds in the Oil Franchise Tax General Fund represent excess oil franchise tax revenues not required for debt service and such funds may be used by the Commission for any of its purposes. The Commission currently intends to use a portion of these funds towards Act 61 eligible projects. See “SECURITY FOR THE 2013 BONDS - Revenue Fund Excess Balance and Oil Franchise Tax General Fund.”

SEE APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - THE INDENTURE - Senior Bonds Debt Service Fund - Senior Bonds Sinking Fund - Subordinated Bonds Debt Service Fund - Subordinated Bonds Sinking Fund - Subordinated Bonds Debt Service Reserve Fund, and - Oil Franchise Tax General Fund.”

### **Subordinated Bonds Debt Service Reserve Fund**

The Indenture established a Subordinated Bonds Debt Service Reserve Fund (the “***Subordinated Bonds Debt Service Reserve Fund***”) for the benefit of the holders of the Subordinated Bonds on a parity basis. The Subordinated Bonds Debt Service Reserve Requirement for the Subordinated Bonds Debt Service Reserve Fund is an amount equal to one-half of the maximum Principal and Interest Requirements for any succeeding Fiscal Year on account of the Subordinated Bonds.

The Commission recently determined that due to an error in calculating the Subordinated Bonds Debt Service Reserve Requirement at the time the 2009D Subordinated Bonds and the 2009E Subordinated Bonds were issued, the Subordinated Bonds Debt Service Reserve Fund was underfunded. As of June 17, 2013, the underfunding was \$1,025,553.09. Upon becoming aware of the shortfall, the Commission transferred \$1,025,553.09 from the Oil Franchise Tax Revenue Fund to the Subordinated Bonds Debt Service Reserve Fund. On August 28, 2013, the Commission transferred an additional \$239,299.90 from the Oil Franchise Tax General Fund to the Subordinated Bonds Debt Service Reserve Fund to remedy an additional shortfall resulting from investment losses and market fluctuations. The Indenture provides for transfers from the Revenue Fund, after the payment of other required sums, to the Subordinated Bonds Debt Service Reserve Fund to the extent necessary to maintain the Subordinated Bonds Debt Service Reserve Requirement.

Moneys held for the credit of the Subordinated Bonds Debt Service Reserve Fund shall be used for the purpose of paying interest on, maturing principal of, and mandatory sinking fund redemption payments of the Subordinated Bonds whenever and to the extent that the moneys held for the credit of the Subordinated Bond Debt Service Fund or any applicable account in any Sinking Fund shall be insufficient for such purpose. For purposes of calculating the Subordinated Bonds Debt Service Reserve Requirement, debt service is reduced by the Subsidy Payments.

In lieu of the deposit of money into the Subordinated Bonds Debt Service Reserve Fund, the Commission may, with the written consent of MBIA, cause to be provided a surety bond or insurance policy (which shall be approved in writing by MBIA) payable to the Trustee for the benefit of the holders of the Subordinated Bonds. The surety bond or insurance policy shall be payable (upon the giving of one Business Day's notice) on any Interest Payment Date on which moneys will be required to be withdrawn from the Subordinated Bonds Debt Service Reserve Fund and applied to the payment of the principal of or interest on the Subordinated Bonds to the extent that such withdrawals cannot be made from amounts credited to the Subordinated Bonds Debt Service Reserve Fund. The insurer providing such surety bond or insurance policy shall be an insurer whose municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bond issues result in such issues being rated in the highest rating category by each Rating Agency.

If the issuer of a surety bond or insurance policy on deposit in the Subordinated Bonds Debt Service Reserve Fund shall cease to have a rating described in the immediately preceding paragraph, the issuer of such surety bond or insurance policy shall immediately notify the Commission, MBIA, and the Trustee in writing, and the Commission shall use reasonable efforts to replace such surety bond or insurance policy with one issued by an issuer having a rating so described, consented to in writing by MBIA, but shall not be obligated to pay, or commit to pay, increased fees, expenses, or interest in connection with such replacement or to deposit Tax Revenues in the Subordinated Bonds Debt Service Reserve Fund in lieu of replacing such surety bond or insurance policy with another; provided, however, that the Commission shall at all times fund the Subordinated Bonds Debt Service Fund with cash or with a surety bond or an insurance policy acceptable to MBIA. **Holders of the Senior Bonds, including the 2013A Bonds, shall have no claim to the Subordinated Bonds Debt Service Reserve Fund.**

See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - THE INDENTURE - Subordinated Bonds Debt Service Reserve Fund.”

#### **Revenue Fund Excess Balance and Oil Franchise Tax General Fund**

The Commission transferred \$10,000,000 from the Oil Franchise Tax General Fund into the Revenue Fund on the date of issuance of the \$310,475,000 Oil Franchise Tax Senior Revenue Bonds, Series A of 1998 and the \$228,405,000 Oil Franchise Tax Subordinated Revenue Bonds, Series B of 1998. All Tax Revenues to be received from the Commonwealth are to be paid to the Trustee for deposit into the Revenue Fund. The Indenture provides that, after first having made the required debt service sinking fund and reserve fund payments out of the Revenue Fund, the Trustee shall transfer from the Revenue Fund on or before the Business Day immediately preceding an Interest Payment Date to the credit of the Oil Franchise Tax General Fund the balance, if any, in excess of \$10,000,000 remaining in the Revenue Fund.

The Oil Franchise Tax General Fund shall be used to make up deficiencies in any funds or accounts created under the Indenture and, in the absence of any such deficiency, may be expended by the Commission: (a) to purchase or redeem Bonds or any other obligations issued by the Commission; (b) to make payments into the Construction Fund; (c) to fund improvements, extensions and replacements of the Pennsylvania Turnpike System; (d) to make any payment due under the Parity Swap Agreements that was not paid by moneys withdrawn from the Revenue Fund (provided the Commission has moneys available to pay debt service on the Senior Obligations for the next 12 months); or (e) to further any lawful corporate purpose permitted by the Enabling Acts. See APPENDIX C - “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – THE INDENTURE – Oil Franchise Tax General Fund.”

## **Additional Bonds**

The Indenture provides for the issuance of Additional Senior Bonds and Additional Subordinated Bonds. The Additional Bonds may be issued under and secured by the Indenture at any time or times for the purpose of paying the cost of all or any part of any Project or completion of any Project or for the purpose of refunding or advance refunding all or any portion of the Bonds then outstanding and, in each case, paying costs incurred in connection with the issuance of such Additional Bonds and making any necessary contributions to the Subordinated Bonds Debt Service Reserve Fund. Among other things, a certificate signed by the Treasurer, Assistant Treasurer, Chief Financial Officer, or Deputy Executive Director/Finance and Administration of the Commission demonstrating and concluding that the Historic Tax Revenues (as described below) were not less than 200% of the Maximum Principal and Interest Requirements on account of all Senior Bonds to be outstanding under the Indenture after the issuance of the Additional Senior Bonds and not less than 115% of the Maximum Principal and Interest Requirements on account of all Bonds to be outstanding under the Indenture after the Issuance of the Additional Subordinated Bonds must be filed with the Trustee as a condition precedent to the issuance of any Additional Bonds except with respect to certain Additional Bonds issued for refunding purposes, as described in “Additional Bonds for Refunding Purposes” set forth below. For purposes of calculating the Maximum Principal and Interest Requirements as set forth above, debt service does not include interest to the extent of the Subsidy Payments.

In any computation of Historic Tax Revenues for purposes of the test described above, if the rate or rates at which the Oil Franchise Tax are imposed or the percentage of Tax Receipts to be received by the Commission during all or any part of the period for which any such calculation is made shall be different from the rate or rates at which the Oil Franchise Tax is imposed or the percentage of Tax Receipts received by the Commission in effect at the time such calculation is made, there shall be added to or deducted from said Tax Revenues so calculated, any increase or decrease in the Tax Revenues for such period which would result from such different rate or rates or percentage.

**“Tax Receipts”** are defined in the Indenture as the amounts received by the Trustee from the Commonwealth and paid from the Oil Franchise Tax.

**“Tax Revenues”** are defined in the Indenture as the Tax Receipts or any receipts, revenues and other money received by the Trustee on or after the date of the Indenture from any tax or other source of funds from the Commonwealth in substitution and/or replacement of the Tax Receipts and 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, but excluding any moneys received by way of grant or contribution from any governmental agency or other entity specifically designated by the grantor or contributor for a particular purpose.

**“Historic Tax Revenues”** are defined in the Indenture, as the Tax Revenues for any 12 consecutive calendar months within the preceding 24 calendar months with such adjustments as may be required pursuant to the Indenture and shall exclude the \$10,000,000 initially deposited in the Revenue Fund.

## **Additional Bonds for Refunding Purposes**

If the Additional Senior Bonds to be issued are for refunding purposes, the Commission shall deliver to the Trustee, among other things, a Certificate signed by the Treasurer, Assistant Treasurer, Chief Financial Officer, or Deputy Executive Director/Finance and Administration of the Commission demonstrating that the percentage derived by dividing the amount of the Historic Tax Revenues by the Maximum Annual Principal and Interest Requirements on Senior Bonds outstanding after delivery of

such Additional Senior Bonds shall be either (i) at least 200% or (ii) not less than the percentage obtained by dividing such amounts prior to delivery of such Additional Senior Bonds. If the Additional Subordinated Bonds to be issued are for refunding purposes, the Commission shall deliver to the Trustee, among other things, a Certificate signed by the Treasurer, Assistant Treasurer, Chief Financial Officer, or Deputy Executive Director/Finance and Administration of the Commission demonstrating that the percentage derived by dividing the amount of the Historic Tax Revenues by the Maximum Principal and Interest Requirements on Bonds outstanding after delivery of such Additional Subordinated Bonds shall be either (i) at least 115% or (ii) not less than the percentage obtained by dividing such amounts prior to delivery of such Additional Subordinated Bonds.

### **Obligations Secured by Other Revenue Sources**

The Commission has also issued Turnpike Senior Revenue Bonds that are currently outstanding in the aggregate principal amount of \$3,338,375,000. The Commission has also issued each of Registration Fee Revenue Bonds that are currently outstanding in the aggregate principal amount of \$416,930,000, Motor License Fund-Enhanced Subordinate Special Revenue Bonds that are currently outstanding in the aggregate principal amount \$798,840,631 (including compounded amounts as of June 1, 2013), and Subordinate Revenue Bonds that are currently outstanding in the aggregate principal amount of \$3,528,246,520 (including compounded amounts as of June 1, 2013). The Commission has entered into various interest rate exchange agreements with respect to certain Turnpike Revenue Bonds and Registration Fee Revenue Bonds. Neither the Turnpike Revenue Bonds, the Registration Fee Revenue Bonds nor the Motor License Fund-Enhanced Subordinate Special Revenue Bonds are secured by or have any interest in the Trust Estate. Furthermore, neither the Senior Toll Revenues, Registration Fee Revenues nor the Motor License Fund-Enhanced Subordinate Special Revenue Bonds are pledged to secure the 2013 Bonds. See APPENDIX A - "THE PENNSYLVANIA TURNPIKE COMMISSION – REVENUE SOURCES OF THE COMMISSION – Revenue Sources of the Commission; Bonds of the Commission."

### **OIL FRANCHISE TAX**

The Oil Franchise Tax was first imposed in 1981 by Act 35, in the amount of 35 mills on each gallon of petroleum sold. The tax was increased by an additional 25 mills in 1983 by Act 32 and an additional 55 mills in 1991 by Act 26. With Act 3 of 1997, the tax was increased by an additional 38.5 mills to a total of 153.5 mills on all liquid fuels\* (primarily gasoline) and an additional 55 mills (for a total increase of 93.5 mills) for a total of 208.5 mills on other fuels\* (diesel fuel\* and all other special fuels except dyed diesel fuel,\* liquid fuels and alternative fuels\*).

The additional 55 mills added in 1991, imposed on liquid fuels and fuels, are distributed as follows:

- (i) 42% Maintenance;

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\* As defined in Section 9002 of Chapter 90 of Title 75 of the Pennsylvania Consolidated Statutes.



- (ii) 17% Highway capital projects;
- (iii) 13% Bridges;
- (iv) 2% County and forestry bridges;
- (v) 12% Municipalities;
- (vi) 14% Toll Roads.

### **Commission Allocation**

The Commission Allocation of the Oil Franchise Tax consists of 14% of the additional 55 mills of the Oil Franchise Tax which 55 mills became effective pursuant to Act 26 beginning on September 1, 1991. The law provides for monthly payments to the Commission. As the revenues from the Oil Franchise Tax are collected by the Department of Revenue, they are required to be deposited into a restricted account of the Motor License Fund of the Commonwealth held by the Department of Transportation. No administrative fees or expenses are deducted and no earnings are added.

The administrative process for paying the Commission Allocation involves an executive authorization, based on official revenue estimates, executed by the Governor each year at or prior to the beginning of the Commonwealth's fiscal year which ends on June 30 each year. The Commission's fiscal year ends on May 31 each year. The Governor is required by law to authorize payment of the Commission Allocation. Such authorization is based on estimated Oil Franchise Taxes at the beginning of the year and authorizes payment of the Commission Allocation monthly as described above based on such estimates. If the amount collected during the year varies from the estimate, a reconciliation is prepared by the Commonwealth and there is a subsequent adjustment of payments. Payments to the Commission are made in accordance with the current Department of Revenue administrative procedure, on a priority basis over other uses of the Oil Franchise Tax. This priority procedure is not mandated by statute.

### **Pledge and Appropriation**

Section 9511(h) of Chapter 95 of Title 75 of the Pennsylvania Consolidated Statutes provides as follows:

The Commonwealth does hereby pledge to and agrees with any person, firm or corporation acquiring any bonds to be issued by the Pennsylvania Turnpike Commission and secured in whole or in part by a pledge of the portion of the tax known as the "oil company franchise tax for highway maintenance and construction" which is imposed by Section 9502(a)(2) and distributed in the manner indicated in that section, including 14% for toll roads designated under the Turnpike Organization, Extension and Toll Road Conversion Act, that the Commonwealth will not limit or alter the rights vested in the Pennsylvania Turnpike Commission to the appropriation and distribution of such tax revenues.

In connection with the issuance of the 2013 Bonds, Co-Bond Counsel will deliver its opinion that, pursuant to the Oil Franchise Tax Act, the Commission Allocation has been appropriated by the Commonwealth and the payment of the Commission Allocation to the Commission by the

Commonwealth does not require further legislative appropriation or approval. See APPENDIX D - "FORM OF OPINION OF CO-BOND COUNSEL."

In the Indenture, the Commission also covenants that it will seek to enforce the pledge and appropriation of the Commonwealth with respect to the Oil Franchise Tax and covenants that the Commission will petition the General Assembly for additional funds in the event that the Tax Revenues are inadequate to pay amounts due under the Indenture.

The Trustee may and, upon receipt of written direction from the holders of not less than twenty-five (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 enforce the pledge and appropriation of the Commonwealth with respect to the Oil Franchise Tax.

### **Act 3**

Act 3 revised certain of the provisions of Act 26 which contains the appropriation of the Commission Allocation of the Oil Franchise Tax. These revisions include the clarification of the definitions of liquid fuels and fuels as the subjects of the tax. In addition, Act 3 designated distributors rather than the previously designated dealers as payors of the Oil Franchise Tax.

Act 3 required that each distributor obtain an annual fuels permit in order to engage in the sale and delivery of liquid fuels within the Commonwealth. The renewal of such permit is conditioned on the filing of a surety bond or letter of credit as security for its obligation to pay the tax and the distributor faithfully complying with the requirement to pay the Oil Franchise Tax. The amount of the surety bond or letter of credit is based on each distributor's historic tax payments.

Act 3 further provided that all appropriate Oil Franchise Taxes collected by the distributors shall constitute a trust fund for the Commonwealth. The trust is enforceable against the distributor and any person, other than a purchaser to whom a refund has been properly made, receiving any part of the fund without consideration or knowing that the distributor is committing a breach of trust. Unpaid taxes for which a trust is enforced against the officers of the distributor is a lien upon the franchise and property of such distributor and officer.

### **Liquid Fuels and Fuels as the Subjects of Oil Franchise Tax**

The Oil Company Franchise Tax, which is designated as a tax for highway maintenance and construction, is imposed by Section 9502 of Chapter 95 of Title 75 of the Pennsylvania Consolidated Statutes upon all "liquid fuels" and "fuels." Ethanol currently is not treated as a "liquid fuel" or a "fuel" so the Oil Franchise Tax is not imposed upon ethanol or other "alternative fuels," as that term is defined in the above-referenced Section 9502.

**"Liquid fuels"** are defined as all products derived from petroleum, natural gas, coal, coal tar, vegetable ferments, and other oils. The term includes gasoline, naphtha, benzol, benzine, or alcohols, either alone or when blended or compounded, which are practically and commercially suitable for use in internal combustion engines for the generation of power or which are prepared, advertised, offered for sale, or sold for use for that purpose. The term does not generally include kerosene, fuel oil, gas oil, diesel fuel, tractor fuel by whatever trade name or technical name known having an initial boiling point of not less than 200 degrees Fahrenheit and of which not more than 95% has been recovered at 464 degrees Fahrenheit (ASTM method D-86), liquefied gases which would not exist as liquids at a temperature of 60 degrees Fahrenheit and pressure of 14.7 pounds per square inch absolute, or naphthas and benzols and solvents sold for use for industrial purposes.

**“Fuels”** are defined as including diesel fuel and all combustible gases and liquids used for the generation of power in aircraft or aircraft engines, or used in an internal combustion engine for the generation of power to propel vehicles on the public highways. The term does not include liquid fuels or dyed diesel fuel. Notwithstanding the foregoing, a separate aviation or fuels tax, in lieu of the Oil Franchise Tax, is imposed on aviation fuels.

**“Alternative Fuels”** are defined as natural gas, compressed natural gas (CNG), liquefied natural gas (LNG), liquid propane gas and liquefied petroleum gas (LPG), alcohols, gasoline-alcohol mixtures containing at least 85% alcohol by volume, hydrogen, hythane, electricity and any other fuel used to propel motor vehicles on the public highways which is not taxable as fuels or liquid fuels.

The Commonwealth’s liquid fuels tax statute exempts fuel used by or sold to the United States government, the Commonwealth and its political subdivisions, volunteer fire companies, volunteer ambulance services and volunteer rescue squads, second class county port authorities and nonpublic schools not operated for profit. Such exemptions also are applied to the Oil Franchise Tax. The Department of Revenue may require purchasers of liquid fuels and fuels to provide the selling oil company with documentation to substantiate any portion of its purchases which are to be used for a nontaxable purpose.

### **Collection and Calculation of Oil Franchise Tax**

The Department of Revenue is charged with the enforcement of the provisions of Chapters 90 and 95 of Title 75 of the Pennsylvania Consolidated Statutes. All taxes, interest and penalties imposed by Chapter 95 of Title 75 of the Pennsylvania Consolidated Statutes are to be deposited in the Motor License Fund and that amount resulting from the 55 mills is allocated, as described above under this caption “OIL FRANCHISE TAX.”

The Oil Franchise Tax is imposed and collected upon all gallons of taxable liquid fuels and fuels on a “cents-per-gallon equivalent basis.” Distributors are liable to the Commonwealth for the collection and payment of this tax which is required to be collected by the distributor at the time the liquid fuels and fuels are used or sold and delivered by the distributor.

The collection on a “cents-per-gallon equivalent basis” (millage rate) is defined as the average wholesale price per gallon multiplied by the decimal equivalent of the tax imposed which, in the case of the Commission, is the additional 55 mills added in 1991 multiplied by 14%. The average wholesale price means the average wholesale price per gallon of all taxable liquid fuels and fuels, excluding the federal excise tax and all liquid fuels taxes, as determined by the Department of Revenue for the 12-month period ending on the September 30 immediately prior to January 1 of the year for which the rate is to be set. The statute provides that the average wholesale price for purposes of calculating the Oil Franchise Tax shall not be less than \$0.90 nor more than \$1.25 per gallon.

### **Amounts of Oil Franchise Tax Collected**

The following table lists the amounts of Oil Franchise Tax collected by the Commonwealth and deposited into the Motor License Fund in each of the last ten fiscal years of the Commonwealth and sets forth the estimated Oil Franchise Tax collections for 2013 through 2018 as set forth in the Governor’s Executive Budget for the Commonwealth’s 2013–2014 fiscal year. The historical Commission Allocation presented below reflects actual receipts by the Commission.

(Dollar Amounts in Thousands)  
(Reported on a Cash Basis)

### HISTORICAL

<b>Fiscal Year</b>	<b>Tax Collected Added 55 Mills<sup>1</sup></b>	<b>Commission Allocation<sup>2,3</sup></b>
2004	\$330,161	\$47,062
2005	367,952	51,551
2006	429,607	55,749
2007	446,540	67,071
2008	431,835	60,592
2009	437,007	57,379
2010	432,131	59,733
2011	439,060	60,996
2012	441,932	61,897
2013	429,543	60,285

### PROJECTED

<b>Fiscal Year</b>	<b>Estimated Tax Collected Added 55 Mills<sup>1</sup></b>	<b>Estimated Commission Allocation<sup>2</sup></b>
2014	\$437,200	\$61,208
2015	438,500	61,390
2016	440,100	61,614
2017	442,300	61,922
2018	444,900	62,286

**THE ESTIMATES SET FORTH IN THE PRECEDING TABLE ARE THOSE USED IN GOVERNOR'S EXECUTIVE BUDGET FOR FISCAL YEAR 2013-14 OR WERE DERIVED FROM ESTIMATES USED IN THE GOVERNOR'S EXECUTIVE BUDGET AND ARE**

<sup>1</sup> Amount determined at the end of the Commonwealth's fiscal year ending June 30 of each year.

<sup>2</sup> Amount determined at the end of the Commission's fiscal year ending May 31 of each year.

<sup>3</sup> The amount of the Commission's Allocation does not equal exactly 14% of the tax collected from the added 55 mills because of the difference between the Commonwealth's and the Commission's fiscal years.

**ESTIMATES ONLY. THERE CAN BE NO ASSURANCES THAT THE COMMISSION ALLOCATION OR THE ESTIMATED AVAILABLE REVENUES IN THE YEARS SHOWN WILL NOT VARY MATERIALLY AND/OR ADVERSELY FROM THE ESTIMATES. NUMEROUS FACTORS COULD AFFECT THE ACTUAL AMOUNT OF THE COMMISSION ALLOCATION AND OTHER AVAILABLE REVENUES.**

### **Historical Consumption Amounts**

The following table lists historic gallonage consumed for the primary fuels on which the Oil Franchise Tax is imposed. The table provided below does not purport to include all fuels on which the Oil Franchise Tax is calculated. For a full description, see “OIL FRANCHISE TAX - Liquid Fuels and Fuels as the Subjects of Oil Franchise Tax.”

#### **HISTORICAL GALLONAGE CONSUMPTION FOR OIL FRANCHISE TAX GASOLINE AND DIESEL FUELS<sup>1</sup>**

<b>Fiscal Year Ending June 30</b>	<b>Gasoline</b>	<b>Diesel</b>	<b>Total Gallonage</b>
2004	5,200,933,976	1,358,504,223	6,559,438,199
2005	5,162,651,346	1,378,060,341	6,540,711,687
2006	5,075,639,422	1,425,190,768	6,500,830,190
2007	5,037,203,786	1,427,926,624	6,465,130,410
2008	4,924,688,321	1,359,136,424	6,283,824,745
2009	4,910,855,824	1,286,139,537	6,196,995,361
2010	4,956,397,661	1,268,327,770	6,224,725,431
2011	5,022,408,136	1,335,960,491	6,358,368,627
2012	5,009,865,770	1,359,890,824	6,369,756,594
2013 <sup>2</sup>	4,910,131,165	1,339,128,098	6,249,259,263

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<sup>1</sup> Amount determined at the end of the Commonwealth’s fiscal year ending June 30 of each year.

<sup>2</sup> 2013 data from April 2013 to June 2013 is preliminary data from the Department of Revenue’s Bureau of Motor and Alternative Fuels Taxes.

Source: Bureau of Research, Department of Revenue.

## Debt Service Schedule<sup>1</sup>

Fiscal Year Ending May 31	Existing Debt				Total Debt		
	Existing Debt	Series	Total Debt	Service on	Series	Service on	Combined Total Debt Service <sup>4</sup>
	Service on Senior Bonds <sup>2,4</sup>	2013A Bonds	Service on Senior Bonds <sup>2,4</sup>	Subordinated Bonds <sup>3,4</sup>	2013B Bonds	Subordinated Bonds <sup>3,4</sup>	
2014	\$ 28,555,332	\$ 212,104	\$ 28,767,436	\$ 20,840,859	\$ 247,608	\$ 21,088,468	\$ 49,855,903
2015	22,415,149	5,937,625	28,352,774	15,700,944	5,355,650	21,056,594	49,409,367
2016	27,962,711	1,156,000	29,118,711	15,706,344	5,358,250	21,064,594	50,183,305
2017	27,975,586	1,156,000	29,131,586	20,297,094	1,210,750	21,507,844	50,639,430
2018	27,997,061	1,156,000	29,153,061	20,336,431	1,210,750	21,547,181	50,700,242
2019	28,015,611	1,156,000	29,171,611	20,350,281	1,210,750	21,561,031	50,732,642
2020	28,025,361	1,156,000	29,181,361	20,353,281	1,210,750	21,564,031	50,745,392
2021	20,842,586	7,601,000	28,443,586	14,664,831	6,460,750	21,125,581	49,569,167
2022	20,846,436	7,613,750	28,460,186	14,678,231	6,463,250	21,141,481	49,601,667
2023	28,816,286	494,750	29,311,036	20,975,762	672,500	21,648,262	50,959,298
2024	28,833,136	494,750	29,327,886	20,988,162	672,500	21,660,662	50,988,548
2025	18,133,986	10,389,750	28,523,736	14,034,312	7,162,500	21,196,812	49,720,548
2026	29,418,986		29,418,986	13,886,080	7,308,000	21,194,080	50,613,066
2027	29,438,884		29,438,884	21,743,929		21,743,929	51,182,813
2028	29,457,699		29,457,699	21,773,819		21,773,819	51,231,518
2029	29,483,313		29,483,313	21,746,557		21,746,557	51,229,870
2030	29,503,825		29,503,825	21,760,137		21,760,137	51,263,962
2031	29,532,114		29,532,114	21,801,051		21,801,051	51,333,164
2032	29,555,491		29,555,491	21,822,402		21,822,402	51,377,893
2033	29,582,245		29,582,245	21,843,253		21,843,253	51,425,498
2034	29,469,686		29,469,686	21,804,163		21,804,163	51,273,848
2035	29,488,567		29,488,567	21,822,497		21,822,497	51,311,064
2036	29,505,767		29,505,767	21,839,324		21,839,324	51,345,091
2037	29,529,955		29,529,955	21,853,400		21,853,400	51,383,354
2038	29,284,420		29,284,420	18,928,481		18,928,481	48,212,901
2039	29,000,000		29,000,000				29,000,000
2040	29,000,000		29,000,000				29,000,000
Total	\$ 749,670,191	\$38,523,729	\$ 788,193,920	\$491,551,624	\$44,544,008	\$536,095,632	\$1,324,289,552

<sup>1</sup> Figures rounded.

<sup>2</sup> Includes the 2003 Fixed Rate Senior Bonds, 2003C Senior Bonds, 2006 Senior Bonds, and 2009 Senior Bonds. Assumes payment of the full Issuer Subsidy related to the 2009B Senior Bonds, except the June 1, 2013 debt service payment, for which 8.7% or approximately \$212,764 of the Issuer Subsidy (aggregate for the 2009B Senior Bonds and the 2009E Subordinated Bonds) was not received.

<sup>3</sup> Includes the 2003 Fixed Rate Subordinated Bonds, 2006 Subordinated Bonds, and 2009 Subordinated Bonds. Assumes payment of the full Issuer Subsidy related to the 2009E Subordinated Bonds, except the June 1, 2013 debt service payment, for which 8.7% or approximately \$212,764 of the Issuer Subsidy (aggregate for the 2009B Senior Bonds and the 2009E Subordinated Bonds) was not received.

<sup>4</sup> Reflects the issuance of the 2013 Bonds, and the refunding of the Refunded Series A Bonds and the Refunded Series B Bonds.

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## Debt Service Coverage

Based on the information set forth on the previous page, the following table has been compiled to show historical debt service coverage for the Bonds with full receipt of the Issuer Subsidy.

### HISTORICAL OIL FRANCHISE TAX DEBT SERVICE COVERAGE

<b>Fiscal Year Ending May 31</b>	<b>Tax Receipts<sup>1</sup></b>	<b>Senior Debt Service<sup>2, 5</sup></b>	<b>Senior Coverage</b>	<b>Total Debt Service<sup>3, 5</sup></b>	<b>Total Coverage<sup>4</sup></b>
2004	\$47,062,000	\$22,745,523	2.07x	\$39,564,094	1.19x
2005	51,551,000	22,577,747	2.28	39,473,000	1.31
2006	55,749,000	22,553,036	2.47	39,434,000	1.41
2007	67,071,000	22,830,526	2.94	39,289,089	1.71
2008	60,592,000	23,977,894	2.53	40,766,875	1.49
2009	57,379,000	23,976,094	2.39	40,765,738	1.41
2010 <sup>5</sup>	59,733,000	17,818,075	3.35	33,218,144	1.80
2011 <sup>5</sup>	60,996,000	28,885,444	2.11	52,127,246	1.17
2012 <sup>5</sup>	61,897,000	29,194,211	2.12	50,774,598	1.22
2013 <sup>5</sup>	60,285,000	29,209,311	2.06	50,770,248	1.19

1 Actual Commission Allocation received through fiscal year 2013.

2 Computed on a fiscal year basis.

3 Computed on a fiscal year basis, but with the addition of the Principal and Interest Requirements on Subordinated Bonds.

4 Debt Service Reserve Fund earnings, if any, are available only for the Subordinated Bonds. This table does not assume any Debt Service Reserve Fund earnings.

5 Debt Service reflects receipt of the Issuer Subsidy with respect to Oil Franchise Tax Build America Bonds.

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## PROJECTED OIL FRANCHISE TAX DEBT SERVICE COVERAGE

<b>Fiscal Year Ending May 31</b>	<b>Estimated Tax Receipts<sup>1</sup></b>	<b>Senior Debt Service<sup>2, 5</sup></b>	<b>Estimated Senior Coverage</b>	<b>Total Debt Service<sup>3, 5</sup></b>	<b>Estimated Total Coverage<sup>4</sup></b>
2014	\$61,208,000	\$28,767,436	2.13x	\$49,855,903	1.23x
2015	61,390,000	28,352,774	2.17	49,409,367	1.24
2016	61,614,000	29,118,711	2.12	50,183,305	1.23
2017	61,922,000	29,131,586	2.13	50,639,430	1.22
2018	62,286,000	29,153,061	2.14	50,700,242	1.23

1 Projected Commission Allocation based on the 2013-2014 Governor's Executive Budget.

2 Computed on a fiscal year basis. Includes debt service on the 2013A Bonds.

3 Computed on a fiscal year basis and includes senior debt service described in footnote 2, but with the addition of the Principal and Interest Requirements on Subordinated Bonds. Includes debt service on the 2013B Bonds.

4 Debt Service Reserve Fund earnings, if any, are available only for the Subordinated Bonds. This table does not assume any Debt Service Reserve Fund earnings.

5 Debt Service reflects receipt of the Issuer Subsidy with respect to Oil Franchise Tax Build America Bonds. In fiscal year 2014, 8.7% or approximately \$212,764 of the Issuer Subsidy for the June 1, 2013 debt service payment was not received. Assumes receipt of full Issuer Subsidy on and after December 1, 2013 debt service payment. See "CERTAIN RISK FACTORS; Reductions in federal subsidy payable to the Commission for its outstanding Build America Bonds due to sequestration."

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## PLAN OF FINANCING

The 2013A Bonds are being issued to provide funds to finance the costs of (i) refunding the Refunded Series A Bonds and (ii) issuing the 2013A Bonds.

The 2013B Bonds are being issued to provide funds to finance the costs of (i) refunding the Refunded Series B Bonds and (ii) issuing the 2013B Bonds.

The Refunded Series A Bonds consist of the 2003 Fixed Rate Senior Bonds maturing on December 1, 2014, 2020, 2021 and 2024, currently outstanding in the aggregate principal amount of \$30,775,000, and the Refunded Series B Bonds consist of the 2003 Fixed Rate Subordinated Bonds maturing on December 1, 2014, 2015, 2020, 2021, 2024 and 2025, currently outstanding in the aggregate principal amount of \$34,695,000. Debt service on the remaining outstanding 2003 Fixed Rate Senior Bonds and 2003 Fixed Rate Subordinated Bonds will be paid pursuant to the terms thereof as and when due.

### Escrow Deposit

Concurrently with the closing on the 2013 Bonds, the Commission shall deposit a portion of the proceeds of the 2013A Bonds and 2013B Bonds with the Trustee to be held for the Refunded Series A Bonds and Refunded Series B Bonds (collectively, the “**Refunded 2003 Bonds**”). Such deposit will be invested in Defeasance Securities, and such deposit and other available funds, together with interest thereon, will be sufficient to pay interest on and redemption prices of the Refunded 2003 Bonds through December 1, 2013, the date that the Refunded 2003 Bonds will be called for redemption.

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## ESTIMATED SOURCES AND USES OF FUNDS

	Senior Revenue Refunding Bonds, <u>Series A of 2013</u>	Subordinated Revenue Refunding Bonds, <u>Series B of 2013</u>	<u>Total</u>
SOURCES OF FUNDS:			
Principal Amount	\$27,785,000.00	\$32,035,000.00	\$59,820,000.00
Original Issue Premium	3,492,899.90	3,220,737.60	6,713,637.50
Debt Service Funds Transfer	<u>517,304.17</u>	<u>554,968.75</u>	<u>1,072,272.92</u>
<b>TOTAL SOURCES</b>	\$31,795,204.07	\$35,810,706.35	\$67,605,910.42
USES OF FUNDS:			
Deposit to Escrow Fund	\$31,550,956.25	\$35,527,453.13	\$67,078,409.38
Costs of Issuance <sup>1</sup>	<u>244,247.82</u>	<u>283,253.22</u>	<u>527,501.04</u>
<b>TOTAL USES</b>	\$31,795,204.07	\$35,810,706.35	\$67,605,910.42

## CERTAIN RISK FACTORS

There are various factors which could adversely affect the sufficiency of the Trust Estate and which, if present, may result in an inability to meet the debt service requirements on the 2013 Bonds. The following is intended only as a summary of certain risk factors attendant to an investment in the 2013 Bonds and is not intended to be exhaustive. In order to identify risk factors and make informed investment decisions, potential investors should be thoroughly familiar with the entire Official Statement (including each Appendix hereto), and the Indenture in order to make a judgment as to whether the 2013 Bonds are an appropriate investment. The following risk factors are among those which should be considered by a potential investor:

### **Oil Franchise Tax Revenues may decline**

The statistical information in this Official Statement regarding Oil Franchise Tax revenues collected by the Commission is historical. The actual amount of future Oil Franchise Tax revenues collected by the Commission depends upon a number of factors, including specifically the rate of consumption of motor fuels and the substitution of alternative energy sources for motor vehicles which may be affected by a number of factors including but not limited to:

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<sup>1</sup> Costs of Issuance include, but are not limited to, Underwriters' discount, legal fees, rating agency fees, printing expenses, Financial Advisor fees, Trustee's fees, and other miscellaneous costs and expenses.

- Increasing costs of motor fuels reducing demand;
- Increasing fuel efficiency of motor vehicles and the substitution of alternative energy sources for motor vehicles;
- Development of alternative energy sources;
- Development of mass transit; and
- Changing demographics within the Commonwealth.

**Investors in the 2013B Bonds bear greater risk of non-payment because the priority of payment of interest and principal payments on the 2013B Bonds is subordinate to the Senior Obligations under the Indenture**

The 2013B Bonds are subordinate in right of payment to the payment of all Senior Bonds under the Indenture and payments under Parity Swap Agreements and the Insurance Agreement relating to Senior Bonds. In addition, it is possible that additional senior bonds and other senior obligations may be issued in the future by the Commission under the Indenture, which would increase the amount of Senior Bonds and such other payments to which the payment on the 2013B Bonds are subordinated, thus increasing the risk of nonpayment to the 2013B Bondholders.

**The Commission's financial condition may be adversely affected as a consequence of adverse changes in the financial condition of third-party financial institutions**

Adverse changes in the financial condition of certain third-party financial institutions may adversely affect the Commission's financial position. Different types of investment and contractual arrangements may create exposure for the Commission to such institutions including:

- Risk to the Commission's investment portfolio due to defaults or changes in market valuation of the debt securities of such institutions;
- Counterparty risk related to swaps used by the Commission to hedge its cost of funds; and
- Risk of rating changes of the Commission's credit enhancers or liquidity providers which may adversely affect the interest costs on the Commission's variable rate debt or which may render such variable rate debt unmarketable.

**Certain legislative actions may result in adverse changes to the Commission or Act 44**

From time to time legislation is introduced in the Pennsylvania General Assembly which may affect the Commission and therefore may affect certain of the assumptions made in this Official Statement. The Commission cannot predict if any of such bills or other legislation will be enacted into law, or how any such legislation may affect the Commission's ability to timely pay the 2013 Bonds. See APPENDIX A - "THE PENNSYLVANIA TURNPIKE COMMISSION — ACT 44 AND RECENT DEVELOPMENTS – Pending Legislation and Recent Developments."

**Bankruptcy risk; Lien position**

The rights and remedies of Bondholders could be limited by the provisions of the Federal Bankruptcy Code, as now or hereafter enacted

(the “*Bankruptcy Code*”), or by other laws or legal or equitable principles which may affect the enforcement of creditors’ rights. Chapter 9 of the Bankruptcy Code permits, under prescribed circumstances, a political subdivision or public agency or instrumentality of a state, such as the Commission, to commence a voluntary bankruptcy proceeding and to file a plan of adjustment in the repayment of its debts, if such entity is generally not paying its debts as they become due (unless such debts are the subject of a bona fide dispute), or is unable to pay its debts as they become due. Under the Bankruptcy Code, an involuntary petition cannot be filed against a political subdivision, public agency or instrumentality of a state.

In order to proceed under Chapter 9 of the Bankruptcy Code, state law must authorize the political subdivision, public agency or instrumentality to file a petition under the Bankruptcy Code. THE ENABLING ACTS DO NOT CURRENTLY AUTHORIZE THE COMMISSION TO FILE A PETITION UNDER THE BANKRUPTCY CODE.

**Reductions in federal subsidy payable to the Commission for its outstanding Build America Bonds due to sequestration.**

The Commission currently has \$1,104,675,000 in principal amount of Build America Bonds outstanding, and is entitled to receive approximately \$22,387,000 in federal subsidy (the “*Issuer Subsidy*”) annually with respect to such Build America Bonds. The Commission has pledged the Issuer Subsidy as security for 2009B Senior Bonds and the 2009E Subordinated Bonds. A series of automatic federal deficit reduction spending cuts known as “sequestration” became effective on March 1, 2013 as a result of the failure by Congress to adopt alternative deficit reduction legislation. Sequestration will affect the amount of the Issuer Subsidy with respect to its outstanding Build America Bonds. The Commission currently has \$229,675,000 in principal amount of Oil Franchise Tax Build America Bonds outstanding, and is entitled to receive approximately \$4,891,134 in federal subsidy annually with respect to such Oil Franchise Tax Build America Bonds. Based on guidance issued by the Internal Revenue Service in March 2013, the amount of such federal subsidy payable to the Commission regarding its Oil Franchise Tax Build America Bonds outstanding was reduced by 8.7% or approximately \$212,764 applicable to the June 1, 2013 debt service payment during fiscal year 2014. Adverse changes in the amount of the Issuer Subsidy the Commission receives may require the Commission to use other funds to offset the loss of this subsidy.

**Possible changes in federal tax laws could affect the excludability or deductibility of interest on tax-exempt bonds such as the 2013 Bonds**

Current and future legislative proposals, if enacted into law, could cause interest on the 2013 Bonds to be subject, directly or indirectly, to federal income taxation, or to be subject to or not be exempted from state income taxation, or otherwise prevent the owners of the 2013 Bonds from realizing the full current benefit of the tax status of such interest. The introduction and/or enactment of any such legislative proposals may also affect the market price for, or marketability of, the 2013 Bonds. Prospective purchasers of the 2013 Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation, as to which Co-Bond Counsel will express no opinion. See “TAX MATTERS.”

**The 2013 Bonds may be repaid early due to the exercise of the redemption option. If this happens, yield may be affected and Bondholders will bear reinvestment risk**

The 2013 Bonds may be redeemed prior to their final maturity if the Commission exercises its option to redeem the 2013 Bonds. Bondholders bear the risk that monies received upon such redemption cannot be reinvested in comparable securities or at comparable yields.

**Uncertainty as to available remedies**

The remedies available to owners of the 2013 Bonds upon an Event of Default under the Indenture or other documents described herein are in many respects dependent upon regulatory and judicial actions which often are subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies specified by the Indenture and such other documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the issuance of the 2013 Bonds will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

## **AUDITED FINANCIAL STATEMENTS**

The financial statements of the Commission for the fiscal years ended May 31, 2013 and May 31, 2012 are set forth in APPENDIX B – “AUDITED 2013 AND 2012 FINANCIAL STATEMENTS” certified by Zelenkofske Axelrod, LLC, in its capacity as independent auditor. The Commission has not asked Zelenkofske Axelrod, LLC to perform any additional review procedures 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 2013 Bonds (the “*Disclosure Undertaking*”) pursuant to Rule 15c2-12 promulgated by the United States Securities and Exchange Commission (the “*SEC*”) under the Securities Act of 1933, as amended.

Pursuant to the Disclosure Undertaking, the Commission will provide or cause to be provided to the Municipal Securities Rulemaking Board (the “*MSRB*”), which is currently the sole nationally recognized municipal securities information repository (“*Repository*”) under the Rule, via electronic transmissions pursuant to the MSRB’s Electronic Municipal Market Access System (“*EMMA*”), accessible at <http://emma.msrb.org>, the following information and notices:

(a) Within 180 days of the end of each fiscal year of the Commission commencing with the fiscal year ending May 31, 2014, annual financial information (collectively, the “*Annual Financial Information*”), consisting of: the Commission’s annual audited financial statements and financial and operating data of the type set forth in this Official Statement regarding the annual amounts of the Oil Franchise Tax revenues collected by the Commonwealth and the annual amounts of the Commission Allocation, and those in Tables I and II of APPENDIX A – “THE PENNSYLVANIA TURNPIKE COMMISSION” and in APPENDIX B – “AUDITED FINANCIAL STATEMENTS: 2013 AND 2012” as well as a summary of any material legislative or regulatory developments affecting Act 44. In the event that audited financial statements are not available within 180 days after 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.

(b) Notice of the occurrence of any of the following events with respect to the 2013 Bonds, within ten (10) business days after the occurrence of such event: (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (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, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the 2013 Bonds or other events affecting the tax status of the 2013 Bonds; (vii) modifications to rights of holders of the 2013 Bonds, if material; (viii) 2013 Bond calls, if material, and tender offers; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the 2013 Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar proceeding of the Commission; (xiii) consummation of a merger, consolidation or acquisition involving the Commission or the sale of all or substantially all of the assets of the Commission, other than in the ordinary course of business, the entry of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

The foregoing fourteen (14) events are quoted from the Rule. The SEC requires inclusion of the events listed in clauses (i) through (xiv) above, although some of such events may not be applicable to the 2013 Bonds.

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 the Rule at the time of original issuance of the 2013 Bonds, taking into account any amendments or interpretations of the Rule; and (iii) the amendment or waiver does not materially impair the interests of the Registered Owners of the 2013 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 (presently only the MSRB by electronic transmissions under EMMA) and shall be sent to the Registered Owners of the 2013 Bonds.

The Disclosure Undertaking will recite that it is entered into for the benefit of the Registered Owners from time to time of the 2013 Bonds. For the purposes of the Disclosure Undertaking, for so long as the 2013 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 2013 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 2013 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 2013 Bonds, (2) upon repeal or rescission of Section (b)(5) of the Rule, or (3) upon a final determination that Section (b)(5) of the Rule is invalid or unenforceable. A copy of the Disclosure Undertaking is on file at the principal office of the Commission.

During the five (5) year period preceding the date of this Official Statement, the Commission has complied in all material respects with all of its continuing disclosure requirements pursuant to the Rule with respect to its other series of bonds; provided, however, that notice of a change in trustee in April of 2012 was filed approximately 16 days late.

## RELATIONSHIPS OF CERTAIN PARTIES

Public Financial Management, Inc., Financial Advisor to the Commission, and its affiliate PFM Asset Management, LLC are engaged to provide other services to the Commission.

Certain subsidiaries of Wells Fargo & Company (parent company of Wells Fargo Bank, National Association), one of the underwriters of the 2013 Bonds, have provided, from time to time, investment banking services, commercial banking services or advisory services to the Commission, for which they have received customary compensation.

Wells Fargo & Company or its subsidiaries may, from time to time, engage in transactions with and perform services for the Commission in the ordinary course of their respective businesses.

## UNDERWRITING

Loop Capital Markets LLC, on behalf of itself and the other Underwriters shown on the cover page hereof (the “*Underwriters*”), are expected to enter into a purchase contract (the “*Purchase Contract*”) with the Commission pursuant to which the Underwriters will agree, subject to certain customary conditions precedent to closing, to: (i) purchase the 2013A Bonds from the Commission at a purchase price equal to \$31,193,498.30 (representing the par amount of the 2013A Bonds less an Underwriters’ discount of \$84,401.60 and plus original issue premium of \$3,492,899.90); and (ii) purchase the 2013B Bonds from the Commission at a purchase price equal to \$35,156,324.92 (representing the par amount of the 2013B Bonds less an Underwriters’ discount of \$99,412.68 and plus original issue premium of \$3,220,737.60).

Pursuant to the Purchase Contract, the Underwriters will be obligated to purchase all of the 2013 Bonds if any of such 2013 Bonds are purchased. The 2013 Bonds may be offered and sold to certain dealers (including the Underwriters and other dealers depositing such 2013 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) only after a public offering of the 2013 Bonds at the initial offering price. 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.

Loop Capital Markets LLC, one of the Underwriters of the 2013 Bonds, has entered into distribution agreements (each a “*Distribution Agreement*”) with each of UBS Financial Services Inc. (“*UBSFS*”) and Deutsche Bank Securities Inc. (“*DBS*”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Distribution Agreement (if applicable to this

transaction), each of UBSFS and DBS will purchase 2013 Bonds from Loop Capital Markets LLC at the original issue prices less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

Wells Fargo Bank, National Association (“**WFBNA**”), one of the underwriters of the 2013 Bonds, has entered into an agreement (the “**Distribution Agreement**”) with its affiliate, Wells Fargo Advisors, LLC (“**WFA**”), for the distribution of certain municipal securities offerings, including the 2013 Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the 2013 Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliates, Wells Fargo Securities, LLC (“**WFSLLC**”) and Wells Fargo Institutional Securities, LLC (“**WFIS**”), for the distribution of municipal securities offerings, including the 2013 Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, WFIS, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the Commission and to persons and entities with relationships with the Commission, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the Commission (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the Commission. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

The Commission has recommended and the Underwriters have accepted the appointment of Schnader Harrison Segal & Lewis LLP, as counsel to the Underwriters in connection with the purchase of the 2013 Bonds.

## **RATINGS**

Moody’s Investors Service, Inc. (“**Moody’s**”) and Standard & Poor’s Ratings Services (“**Standard & Poor’s**”) have assigned their municipal bond ratings of “Aa3” (stable outlook), “AA” (stable outlook), respectively, to the 2013A Bonds.

Moody’s and Standard and Poor’s have assigned their municipal bond ratings of “A2” (stable outlook), “A+” (stable outlook), respectively, to the 2013B Bonds.



An explanation of the significance of each of such ratings and any outlook may be obtained from the rating agency furnishing the same at the following addresses: Moody's Investors Service, Inc., 7 World Trade Center at 250 Greenwich Street, New York, New York 10007; and Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041. Certain materials and information not included in this Official Statement may have been furnished to such rating agencies. A rating is not a recommendation to buy, sell or hold securities. 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 either 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 2013 Bonds.

Except as provided in the Disclosure Undertaking, neither the Underwriters nor the Commission have undertaken any responsibility to bring to the attention of the holders of the 2013 Bonds any proposed or actual change in or withdrawal of any rating or to oppose any proposed change or withdrawal.

## **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 2013 Bonds, or in any way contesting or affecting the validity of the 2013 Bonds or any proceedings of the Commission taken with respect to the offer or sale thereof, or the pledge or application of any moneys or security provided for the payment of the 2013 Bonds, including Oil Franchise Taxes, 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.

The Commission is subject to claims for personal injury and/or property damage pertaining to matters normally incidental to routine operations, none of which, individually or in the aggregate, are currently deemed by the Commission to expose the Commission to a material risk of loss.

On March 13, 2013, as a result of a statewide grand jury investigation, the Pennsylvania Attorney General filed criminal charges against the former Commission Chairman, the former Chief Executive Officer and Chief Operating Officer of the Commission, two individuals at companies doing business with the Commission, two former Commission employees and a former Pennsylvania state senator. These individuals are charged with a variety of offenses, including conspiracy, commercial bribery, bid-rigging, theft, conflict of interest and corrupt organization violations. No criminal charges have been filed against current Commissioners, senior management, or employees of the Commission. All Commission employees and officials against whom criminal charges were filed left the Commission between March, 2009 and November, 2011. See "THE COMMISSION – Pending Legislation and Recent Developments – *Statewide Investigating Grand Jury and Recent Criminal Charges*" in APPENDIX A hereto for a detailed discussion of the matters summarized above.

## **LEGAL MATTERS**

Certain legal matters with respect to the 2013 Bonds will be passed upon by Cozen O'Connor, Philadelphia, Pennsylvania and Gonzalez Saggio & Harlan LLP, New York, New York, Co-Bond Counsel. A copy of the proposed form of opinion of Co-Bond Counsel which will be delivered on the date of issuance and delivery of the 2013 Bonds is set forth in APPENDIX D – "FORM OF OPINION OF CO-BOND COUNSEL." Certain other legal matters will be passed upon for the Underwriters by

their Counsel, Schnader Harrison Segal & Lewis LLP, Pittsburgh, Pennsylvania, and for the Commission by its Chief Counsel, Doreen A. McCall, Esquire, and Dilworth Paxson LLP, Philadelphia, Pennsylvania, Disclosure Counsel.

The various legal opinions to be delivered concurrently with the delivery of the 2013 Bonds express the professional judgment of the attorneys rendering the opinion as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or the future performance of the parties to the transaction. In addition, the rendering of an opinion does not guarantee the outcome of any legal dispute that may arise out of the transaction.

### **FINANCIAL ADVISORS**

The Commission has retained Public Financial Management, Inc., Philadelphia, Pennsylvania, and G-Entry Principle, P.C. as Co-Financial Advisors with respect to the authorization and issuance of the 2013 Bonds. The Co-Financial Advisors are not obligated to undertake or assume responsibility for, nor have they undertaken or assumed responsibility for, an independent verification of the accuracy, completeness or fairness of the information contained in this Official Statement. Each of the Co-Financial Advisors is an independent advisory firm and is not engaged in the business of underwriting, trading, or distributing municipal securities or other public securities.

### **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

The accuracy of the mathematical computations of the adequacy of the amount to be held in an account to pay the principal and redemption price of, and interest on, the Refunded Series A Bonds and the Refunded Series B Bonds from the date of issuance of the 2013 Bonds to and including December 1, 2013 will be verified solely as to mathematical accuracy by Causey Demgen & Moore Inc.

### **TRUSTEE AND PAYING AGENT**

The Commission has appointed The Bank of New York Mellon Trust Company, N.A., Philadelphia, Pennsylvania, as the successor Trustee and Manufacturers and Traders Trust Company as Paying 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 2013 Bonds, and makes no representation, and has reached no conclusions, regarding the validity of the 2013 Bonds, the security therefor, the adequacy of the provisions for payment thereof or the tax status of the interest on the 2013 Bonds. The Trustee has relied upon the opinion of Co-Bond Counsel for the validity of the 2013 Bonds and tax status of the interest on the 2013 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 2013 Bonds authenticated or delivered pursuant to the Indenture or for the use or application of the proceeds of such 2013 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 2013 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 designated office of the Trustee. 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

The Internal Revenue Code of 1986, as amended (the “*Code*”) contains provisions relating to the tax-exempt status of interest on obligations issued by governmental entities which apply to the 2013 Bonds. These provisions include, but are not limited to, requirements relating to the use and investment of the proceeds of the 2013 Bonds and the rebate of certain investment earnings derived from such proceeds to the United States Treasury Department on a periodic basis. These and other requirements of the Code must be met by the Commission subsequent to the issuance and delivery of the 2013 Bonds in order for interest thereon to be and remain excludable from gross income for purposes of federal income taxation. The Commission has covenanted to comply with such requirements.

In the opinion of Co-Bond Counsel, interest on the 2013 Bonds will be excluded from gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion of Co-Bond Counsel is subject to the condition that the Commission complies with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the 2013 Bonds in order that interest thereon continues to be excluded from gross income. The Commission has covenanted to comply with all such requirements. Failure to comply with certain of such requirements could cause the interest on the 2013 Bonds to be includable in gross income retroactive to the date of issuance of the 2013 Bonds. Interest on the 2013 Bonds is not treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes; however, under the Code, to the extent that interest on the 2013 Bonds is a component of a corporate holder’s “adjusted current earnings,” a portion of that interest may be subject to the corporate alternative minimum tax.

In addition to the matters addressed above, prospective purchasers of the 2013 Bonds should be aware that ownership of the 2013 Bonds may result in collateral tax consequences to certain taxpayers, including, but not limited to, foreign corporations, certain S corporations, recipients of social security and railroad retirement benefits, financial institutions and property or casualty insurance companies. Co-Bond Counsel expresses no opinion regarding any other federal tax consequences relating to the 2013 Bonds or the receipt of interest thereon, and prospective purchasers should consult their own tax advisors as to collateral federal income tax consequences.

No assurance can be given that amendments to the Code or other federal legislation will not be introduced and/or enacted which would cause the interest on the 2013 Bonds to be subject, directly or indirectly, to federal income taxation or adversely affect the market price of the 2013 Bonds or otherwise prevent the holders of the 2013 Bonds from realizing the full current benefit of the federal tax status of the interest thereon.

### Original Issue Premium

The 2013 Bonds have been sold with original issue premium. An amount equal to the excess of the initial public offering price of a 2013 Bond over its stated redemption price at maturity constitutes premium on such 2013 Bond. A purchaser of a 2013 Bond must amortize any premium over such 2013 Bond’s term using constant yield principles. The amount of amortized bond premium (i) reduces the holder’s basis in the 2013 Bond for purposes of determining gain or loss for federal income tax purposes upon the sale or other disposition of the 2013 Bond and (ii) is not allowed as a deduction for federal income tax purposes to the holder. **Purchasers of any 2013 Bonds, whether at the time of the initial issuance or subsequent thereto, should consult their own tax advisors with respect to the determination and treatment of premium.**

## **State Tax Exemption**

In the opinion of Co-Bond Counsel, under the existing laws of the Commonwealth, the interest on the 2013 Bonds is free from Pennsylvania personal income taxation and Pennsylvania corporate net income taxation, but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the 2013 Bonds or the interest thereon. Profits, gains or income derived from the sale, exchange or other disposition of the 2013 Bonds are subject to state and local taxation within the Commonwealth.

This summary is based on laws, regulations, rulings and decisions now in effect, all of which may change. Any change could apply retroactively and could affect the continued validity of this summary. **Prospective purchasers should consult their tax advisors about the consequences of purchasing or holding the 2013 Bonds.**

## **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 given that any of the assumptions, forecasts or estimates contained herein will be realized.

The references herein to the Enabling Acts, the 2013 Bonds, the Indenture, Supplemental Indenture No. 6 and the 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.

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Neither this Official Statement nor any other disclosure in connection with the 2013 Bonds is to be construed as a contract with the holders of the 2013 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/ Nikolaus H. Grieshaber  
Chief Financial Officer

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## **APPENDIX A**

### **THE PENNSYLVANIA TURNPIKE COMMISSION**

## APPENDIX A

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## APPENDIX A<sup>1,2</sup>

This Appendix A contains general information about the Commission, the System (defined herein) and the Commission's obligations under Act 44 (defined herein). Certain financial information, including information about revenue derived from Tolls and a discussion of Registration Fee Revenues (as such terms are defined herein) is also provided. **Potential investors in the 2013 Bonds are advised that this information is provided as background only. The 2013 Bonds are not payable from Tolls or Registration Fee Revenues. The 2013 Bonds are limited obligations of the Commission payable solely from the Trust Estate. The Trust Estate consists primarily of the Commission Allocation paid to the Commission or the Trustee by the Commonwealth and certain funds held under the Indenture and the earnings thereon.**

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<sup>1</sup> Capitalized terms used in this Appendix A and not otherwise defined have the meanings ascribed in the forepart of this Official Statement or in Appendix C of this Official Statement.

<sup>2</sup> Included in this Appendix A are links to certain additional materials. This Appendix A includes only the information contained on such websites as of the date of this Official Statement. The inclusion of these links is not intended to be a republication herein of any information contained on such websites

## THE COMMISSION

### **General**

The Commission is an instrumentality of the Commonwealth existing pursuant to an Act of the General Assembly of Pennsylvania approved on July 18, 2007, P. L. 169, No. 44 (“Act 44”) and various Acts of the General Assembly approved on several dates, including the Act of May 21, 1937, P. L. 774; 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; the Act of August 14, 1951, P. L. 1232; and the Act of September 30, 1985, P. L. 240, No. 61 (“Act 61”) to the extent not repealed by Act 44, (collectively, the “Enabling Acts”). Pursuant to the Enabling Acts, the Commission has the power to construct, operate and maintain the Pennsylvania Turnpike System (as further described herein, the “System” or the “Turnpike System”). The Commission’s composition, powers, duties, functions, duration and all other attributes are derived from the Enabling Acts. The Enabling Acts may be modified, suspended, extended or terminated at any time by further legislation.

The Commission is composed of five members, including one ex officio member, the Secretary of the Department of Transportation of the Commonwealth of Pennsylvania (“PennDOT”). Any vacancy in the membership of the Commission (other than the Secretary of Transportation) must be filled by appointment of the Governor, with the advice and consent of two-thirds of the members of the Pennsylvania Senate.

The present members of the Commission and the expiration dates of their respective terms (which, in each case, would be extended until reappointment or until a successor is appointed and confirmed) are as follows:

*William K. Lieberman* is the current Chairman of the Commission. He was appointed to serve as a Commissioner on July 1, 2010. Mr. Lieberman has been President of The Lieberman Companies, an insurance and pension provider, since 2003. He serves on the boards of AMPCO Pittsburgh and GENCO-ATC. A graduate of The Pennsylvania State University, he is a University of Pittsburgh Trustee and former Chairman of the Manchester-Bidwell Corp., Pittsburgh, Pennsylvania. His term expires on July 1, 2014.

*Michael Pratt, Esq.* is the current Vice Chairman of the Commission. He is a partner in the law firm of Pepper Hamilton LLP and was originally named to the Commission in June 2009, becoming the first African-American Commissioner in the Commission’s history. Mr. Pratt joined Pepper Hamilton in 1986 and is a partner in the firm’s Philadelphia and Harrisburg offices, as well as the first African-American member of the firm’s executive committee. He is an active member of the Philadelphia, Pennsylvania, and American Bar Associations and has served as the Chancellor of the Philadelphia Bar Association and President of the Barristers’ Association of Philadelphia, an organization of African-American lawyers. He received a B.A. in Economics and English from Washington & Jefferson College, Washington, Pennsylvania, in 1981 and earned a law degree from Harvard Law School in 1985. His term expired on June 24, 2013, but he continues to serve as Commissioner for an indefinite term until he is reappointed or a successor is appointed and confirmed.

*Pasquale T. Deon, Sr.*, an established businessman and lifelong resident of Bucks County, Pennsylvania, is the current Secretary-Treasurer of the Commission. Mr. Deon has served as a member of the Commission since 2002. Mr. Deon is Chairman of the Board of Directors of the Southeastern Pennsylvania Transportation Authority (SEPTA). He is also a service-industry entrepreneur involved in real-estate development, beverage distribution and construction services. He is the owner of WBCB-1490AM Radio, Levittown, Pennsylvania, and co-owner of Temperance House Restaurant & Inn,

Newtown, Pennsylvania. His term expired on June 30, 2010, but he continues to serve as Commissioner for an indefinite term until he is reappointed or a successor is appointed and confirmed.

*Sean F. Logan* is currently the Executive Director/CEO of the Convention and Visitors Bureau of Greater Monroeville. He is also a former Vice President of Community Relations for the University of Pittsburgh Medical Center. Mr. Logan is a former state Senator, having served from January 2001 until August 2010. Prior to his service in the Pennsylvania Senate, Mr. Logan served as the Mayor of Monroeville from 1997 to 2000. His term expires on June 30, 2017.

*Barry J. Schoch, P.E.* is the Secretary of Transportation of the Commonwealth of Pennsylvania and an ex officio member of the Commission. Mr. Schoch was nominated by Governor Tom Corbett to be the Secretary of Transportation, and his nomination was confirmed by the State Senate on April 12, 2011. Mr. Schoch, a graduate of The Pennsylvania State University, has more than 25 years of experience in the engineering field. He began his career with the Delaware Department of Transportation and worked for two private-sector firms before joining McCormick Taylor Inc., a Philadelphia-based engineering-consulting firm, in 1995. He was Vice President for McCormick Taylor and Manager of its Harrisburg, Pennsylvania office Engineering Department when he was confirmed as Secretary of Transportation.

### **Executive Personnel**

*Mark P. Compton* assumed the position of Chief Executive Officer of the Commission on February 1, 2013. Mr. Compton previously served as Deputy Secretary of Administration of PennDOT, overseeing eight bureaus within the agency, including: human resources, information systems governance; business solutions and services; infrastructure and operations; and fiscal management. Before joining PennDOT, Mr. Compton served as Director of Government Affairs for all four companies of American Infrastructure, a heavy civil construction company headquartered in Worcester, Pennsylvania. Prior to that, he worked in various public and private operations, focusing largely on transportation, construction and economic development.

*Craig R. Shuey* is the Chief Operating Officer of the Commission. He joined the Commission in August 2009 as Director of Government Affairs and was named Chief Operating Officer in January 2011. Mr. Shuey served as Acting Chief Executive Officer from October 31, 2012 to February 1, 2013. Prior to joining the Commission, Mr. Shuey was executive director of the Pennsylvania Senate Transportation Committee from 2001 to 2009. He also served as a representative on the Senate Transportation Commission and on various advisory committees in areas such as air, rail, freight movement and safety.

*Nikolaus H. Grieshaber* was named Chief Financial Officer in June 2008. Prior to that time, he held positions of Director of Treasury Management and Treasury Manager with the Commission. Before joining the Commission in 2000, he was a finance manager and portfolio manager for ADP Capital Management, assistant treasurer for BTR Dunlop Finance, cash manager for Silo, Inc. and investment analyst for American Life Insurance Company.

*Bradley J. Heigel, P.E.* was named Chief Engineer in April 2012. He was previously employed by the Commission from 1990 to 2010, and served as the Total Reconstruction Program Manager from 2000 to 2010. From 2010 to 2012, he was employed as a Vice President with Michael Baker, Jr., Inc., an engineering unit of Michael Baker Corporation.

*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 as 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.

*David A. Gentile* was named Chief Compliance Officer in September 2012. Prior to joining the Commission, Mr. Gentile owned a private security firm specializing in investigations, training and consulting services. He has worked for various firms including Gomes and Cordish Gaming Group, where he served as Vice President, Administration, and Elliot-Lewis Corporation, where he was Director of Labor Operations. Mr. Gentile also served as a Special Agent for the Federal Bureau of Investigation, where he supervised and directed complex criminal investigations with specific focus on organized crime, labor racketeering and public corruption.

## **THE TURNPIKE SYSTEM**

### **General**

The present Turnpike System is composed of:

- the 359-mile Turnpike mainline traversing the southern portion of Pennsylvania from east to west identified as the Turnpike Mainline;
- the 110-mile north/south section identified as the Northeast Extension;
- the approximately 18-mile north/south connection, known as the Beaver Valley Expressway, which intersects the Turnpike Mainline in the southwestern portion of the Commonwealth;
- the approximately 13-mile Amos K. Hutchinson Bypass which adjoins the Turnpike Mainline near the New Stanton Interchange;
- the completed portion of the Mon/Fayette Expressway project totaling approximately 47 miles; and
- a 6-mile section of the Southern Beltway project from PA 60 to US 22.

For a more complete description of the Mon/Fayette Expressway and Southern Beltway projects, see “CAPITAL IMPROVEMENTS – Mon/Fayette Expressway and Southern Beltway” herein.

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 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 Turnpike Mainline follows a northwesterly direction to the northeast of Pittsburgh and to the Ohio state line, south of Youngstown, Ohio.

The System was constructed prior to the development of the National Interstate Highway System and 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. However, portions of the System have been designated as Interstate Routes. The Turnpike Mainline has been designated as Interstate Route 276 between the area where Interstate Route 95 crosses the 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 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 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 temporary 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 Commission and the New Jersey Turnpike Authority.

### **Interchanges and Service Plazas**

The System has a total of 64 interchanges which connect it with major arteries and population centers in its 553 mile traffic corridor. Thirty-one of the interchanges are located on the Turnpike Mainline, including Turnpike Mainline barriers at the New Jersey and Ohio state lines, and 10 interchanges are situated on the Northeast Extension. The additional 23 interchanges are located on the Beaver Valley Expressway, Amos K. Hutchinson Bypass, and completed segments of the Mon/Fayette Expressway and Southern Beltway.

There are 17 service plazas along the System providing gasoline and diesel fuel, other automotive supplies and services, and restaurant services. The Commission has entered into long term service plaza redevelopment agreements with HMSHost Restaurants, LLC and Sunoco, Inc. to design, reconstruct, finance, operate and maintain all of the service plazas. The Commission has no responsibility for maintaining the service plazas under the agreements. Since the Commission entered into the agreements in 2005, 14 rebuilt service plazas have opened. Peter J. Camiel Service Plaza will undergo a phased renovation after Labor Day 2013 and will be completed by December 31, 2014. The plaza will remain open during renovation. The two companies are expected to invest approximately \$190 million in the project, at no cost to the Commission. The Commission recorded income of approximately \$3.2 million under the service plaza agreements in each of the Fiscal Years 2013 and 2012, which is based on fixed rental payments plus a percentage of revenue generated.

### **E-ZPass Lanes**

The Commission has installed E-ZPass, a form of electronic toll collection, throughout the System. Not only has E-ZPass enhanced safety and convenience for users of the System, but the technology has improved traffic flow and reduced congestion at the System's busiest interchanges, especially in southeastern Pennsylvania. The use of electronic tolling has enhanced the overall efficiency of the Commission's toll collections operations and has resulted in a reduction in the number of required full-time and part-time toll collectors. The Commission is a member of the E-ZPass Interagency Group, a coalition of toll authorities throughout the United States.

New highway construction projects, such as the Mon/Fayette Expressway and Southern Beltway, are being designed and built to be compatible with 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 2019, 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 Proposed Capital Plan (as defined herein). For a more complete description of the Proposed Capital Plan, see "CAPITAL IMPROVEMENTS - Ten Year Capital Plan" herein. Plans call for enhancements to E-ZPass lane signage and the design of additional Express E-ZPass lanes.

## **All Electronic Tolling**

The Commission has constructed three all-electronic-tolling (“AET”) interchanges in the Philadelphia area which are designed for the exclusive use of E-ZPass customers. There are also two AET interchanges that are currently under construction. These AET interchanges and other similarly planned interchanges are expected to reduce congestion at the System’s busier interchanges and are expected to provide convenient access to industrial parks and job centers.

Early in 2011, the Commission initiated a feasibility study to examine the benefits and potential issues associated with converting the toll road to a cashless, AET system. The team of McCormick Taylor/CDM Smith (formerly Wilbur Smith Associates) was selected to prepare a feasibility report (the “AET Feasibility Report”), which was completed in March 2012. The Commission has determined, based on the assumptions in the AET Feasibility Report, that conversion to AET is feasible from both a financial and physical perspective. As a result, the Commission has committed to a full conversion to a cashless, non-stop AET system by 2018. In July 2012, the Commission selected HNTB Corporation to act as its Program Manager to lead and direct the multi-disciplinary efforts required to manage and coordinate the design and implementation of an AET system. Completion of Stage 1 of AET Implementation, the conceptual design stage, is scheduled for December 31, 2013. Additional conversion phases will be implemented over the next five years. Additional information regarding AET is available on the Commission’s website at <http://www.paturnpike.com/aet>.

## **Additional Services**

In addition to 815 field personnel in 22 facilities available to keep the roadway open and safe in the event of unfavorable road conditions, the Commission has a 24/7 Traffic Operations Center which monitors conditions on the System and provides emergency dispatch.

A Turnpike Roadway Information Program provides real-time data to drivers. Travelers are alerted to roadway conditions via Variable Message Signs, Highway Advisory Radio and alerts via e-mail and mobile phone.

With funding from the Pennsylvania Department of Environmental Protection (“PaDEP”), the Commission built its first Truck Space Electrification (“TSE”) facility in 2010 at the New Stanton Service Plaza. The TSE provides service towers equipped with modules that fit into truck cab windows to provide heat, air conditioning, internet, TV and electrical power while the truck’s engine remains off. The TSE will help operators of diesel trucks comply with new environmental regulations and will relieve surrounding neighborhoods from noise and pollution from idling diesel engines.

In September 2011, Commission officials along with representatives from sponsor State Farm Insurance, released a smartphone application that enhances safety for those traveling the System. The free iPhone and Droid application is an innovative method for travelers to keep up-to-date on current conditions on the roadway.

In December 2011, PaDEP announced a \$1 million grant award to help develop electric vehicle infrastructure on the System. The grant recipient, Car Charging Group Inc., will install charging stations at 17 service plazas on the System. The Commission has also committed additional funding of up to \$500,000 to upgrade the electrical systems at the plazas to accommodate the charging stations. The first phase of the work will be incorporated into ongoing service-plaza renovations between Harrisburg and New Jersey. Later phases will involve service plazas between Harrisburg and Ohio, and then along the Northeast Extension. The project is expected to be completed by the first half of 2014.

In February 2013, the Commission announced that free Wi-Fi service is available at all operational service plazas. The amenity was added to accommodate Turnpike System customers who want to use smartphones, tablets, laptops or other portable devices to access the internet while traveling.

## **CAPITAL IMPROVEMENTS**

### **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. Although Act 44 repeals Act 61, it further provides that all activities initiated under Act 61 shall continue and remain in full force and effect and may be completed under Act 44.

### **System Maintenance and Inspection**

The Commission's engineering and maintenance staff performs maintenance on and repairs to the System. In addition, the Commission also uses staff and consultants to perform periodic inspections of the System. Pursuant to the terms of the Senior Toll Indenture (as defined herein), the Commission must arrange for the System to be inspected at least once every three years by engaging one or more consultants to conduct inspections and prepare a report. The report must state (a) whether the System has been maintained in good repair, working order and condition since the last inspection report and (b) any recommendations which such consultants may have as to revisions or additions to the Commission's annual capital budget. The most recent inspection report, the Pennsylvania Turnpike Condition Assessment Report 2011 (submitted to the Commission in January 2012), was prepared by Michael Baker Jr., Inc. (the "Condition Assessment Report").

Based on reviews performed by others as well as their own observations, the authors of the Condition Assessment Report found that, "the overall condition of the System is good except for specific areas noted in the report."

The following summarizes certain information found in the Condition Assessment Report, including certain of the "specific areas" referred to in the preceding paragraph, and in inspection data gathered in 2011.

#### *Roadway*

A top priority of the Commission is to entirely reconstruct the System roadways, completely removing all original pavement and sub-base and replacing it with an entirely new roadway, including all facets of the highway such as barriers and guide rails, noise and retention walls and drainage systems. From approximately 1998 to date, the Commission has rebuilt approximately 102 miles of roadways and bridges and much of the reconstructed roadway has been widened to accommodate six lanes. An October 2012 Pavement Condition Survey indicates the average rating for System roadways was 90.4 (100 maximum), which was consistent with recent years. International Roughness Index (IRI) measurements support these results. Further, no roadway segments failed to meet established criteria for skid resistance and rutting. The average age of the base pavement is approximately 46 years.

#### *Bridges*

The percentage of structurally deficient ("SD") bridges in the System is currently 7.4%, or 64 of 867 bridges inspected, as compared to 7.9% in 2012 and 8.1% in 2011. A structurally deficient bridge typically requires significant maintenance and repair to remain in service and eventual rehabilitation or replacement to address deficiencies. Structural deficiency is an indication of a bridge's overall status in terms of structural soundness. The fact that a bridge is classified as structurally deficient does not imply that it is unsafe. The percentage of SD bridges is below the national average for similar systems. Of the 68 bridges identified as SD, 16 are currently being replaced or repaired, an additional 48 are currently in design, and 4 are identified for repair or replacement in the Commission's Proposed Capital Plan. The Commission closely monitors all SD bridges to assure that they are maintained in a satisfactory condition.

## *Tunnels*

The ten System tunnels vary in age from 20 to 71 years; therefore the Commission is focusing on the maintenance and rehabilitation of the mechanical, electrical and structural elements of the tunnels. The Tunnel Management Committee, which is represented by all of the Commission's functional departments, has improved identification of concerns that need to be monitored.

## *Toll Facilities*

The overall condition of toll facilities that provide access to the System is fair to good.

## **Ten Year Capital Plan**

The Commission has a Ten-Year Capital Plan for its facilities and equipment (exclusive of the Mon/Fayette and Southern Beltway projects), consisting of the Highway Program, Technology Program, Fleet Equipment and Facilities and Energy Management Operations, which it updates each year. The Proposed Capital Plan for the ten year period commencing Fiscal Year 2013-2014 (the "Proposed Capital Plan") was proposed by the Commission on May 21, 2013, but has not yet been adopted pending legislative developments. See also "ACT 44 AND RECENT DEVELOPMENTS--Pending Legislation and Recent Developments—Other Pennsylvania Legislative Proposals" below with respect to the possible impact of pending legislation on the Commission's Proposed Capital Plan. The Proposed Capital Plan calls for investment of \$6.56 billion over the coming decade and will support approximately 19,200 jobs each year for the next ten years. Exhibit I attached to this Appendix A indicates proposed budget allocations by program.

The Proposed Capital Plan includes approximately \$378 million to fund the implementation of an AET system. This amount is consistent with the AET Feasibility Report. The Proposed Capital Plan will require the issuance of additional debt throughout the ten-year period. The Commission believes that the increased spending and increased debt may require the imposition of higher annual toll increases than previously contemplated during a portion of the ten-year period. The Commission engaged McCormick Taylor/CDM Smith to prepare a Traffic and Revenue Forecast Study which was issued in 2012 and updated in March, 2013, which contemplates toll increases of 3.0% to 5.5% in each year.

The Highway Program consists of roadway, bridge, tunnel and toll plaza/interchange projects. The Technology Program consists of toll collection, communication, and other electronic information management projects. The Fleet Program funds rolling stock that is required to maintain the system. The Facilities and Energy Management Program consists of buildings and large, heavy or high value equipment needs.

The highest priority highway project is the ongoing full depth roadway total reconstruction of the Turnpike Mainline and Northeast Extension. This work includes the reconstruction and widening of the roadway, the widening of the median, and the replacement of both mainline and overhead bridges. To date, approximately 102 miles of total reconstruction has been completed and approximately 12 miles are currently in construction. Total reconstruction projects from Milepost 199 to Milepost 202, from Milepost 206 to Milepost 210 and from the Mid-County Interchange (Milepost A-20) to Milepost A-26 are under construction. Currently, approximately 134 miles are in design, with design expected to commence on another 20 miles during calendar year 2013. Based on the Proposed Capital Plan, the Commission plans to spend approximately \$2.9 billion on total reconstruction projects and approximately \$1.2 billion on various bridge and tunnel projects over the next ten years.

The Technology Program includes proposed funding of \$181 million over the next ten years to address the Commission's technology needs including toll collection projects, communication, application development and technical operational needs. The Commission has implemented SAP's



Enterprise Resource Planning to provide a set of integrated business processes supported by multi-module application software with a centralized data repository.

The Fleet Program includes proposed funding of \$170 million to purchase rolling stock to ensure adequate maintenance of the roadway system.

The Facilities and Energy Management Program includes proposed funding of \$391 million to repair and replace the aging facilities of the Commission. This commitment will ensure that major equipment and facilities are in good repair to support ongoing Turnpike operations.

Since a comprehensive transportation funding bill has not been enacted to date that, among other things, addresses the Commission's long-term Act 44 obligations, the Commission has begun the process of re-evaluating its proposed capital spending program for current and future fiscal years. See "ACT 44 AND RECENT DEVELOPMENTS – Pending Legislation and Recent Developments – Public Debate over Commission's Obligations under Act 44 Funding Agreement" for additional information.

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

Four projects constructed as part of the Mon/Fayette Expressway are now 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 PennDOT and turned over to the Commission upon its opening in 1990. The second is a twelve-mile section of toll road from I-68 near Morgantown, West Virginia, to Fairchance, Pennsylvania, which is located just south of Uniontown. The third project is a 17-mile section of the Mon/Fayette Expressway from Interstate Route 70 in Washington County to Pennsylvania Route 51 in Allegheny County, which opened in April 2002. The fourth is a sixteen mile section from Uniontown to Brownsville, including a 3,022-foot bridge over the Monongahela River, which opened to traffic in August 2012. These four contiguous projects, which total 51 miles from Morgantown, WV to PA Route 51 south of Pittsburgh, are now part of the System. The final 26-mile section of the Mon/Fayette Expressway, extending from PA Route 51 to Interstate Route 376 in Pittsburgh, received environmental clearance in December 2004. Final design through design field view has been completed. Additional design, right-of-way acquisition and construction cannot progress until additional funding is identified. When eventually completed, the Mon/Fayette Expressway would extend from Interstate 68 in West Virginia to Interstate Route 376 near Pittsburgh.

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 Interstate 376 at the Pittsburgh International Airport. It is comprised of three distinct projects. The six-mile project from I-376 to U.S. 22 (also known as the Findlay Connector) opened to traffic in October 2006. The project from U.S. 22 to I-79 received environmental clearance for its 13 miles in September, 2008 and is in final design; right of way acquisition began in late 2008. The remaining Southern Beltway project, from I-79 to the Mon/Fayette Expressway, received environmental clearance in May 2009. A Letter of Interest was submitted to the U.S. Department of Transportation Federal Highway Administration ("FHWA") in December 2012 under its Transportation Infrastructure Finance and Innovation Act program to assist in financing a portion of the cost of the segment from US 22 to I-79. Financing is pending, awaiting action on the Governor's transportation funding proposal and FHWA's decision whether to invite the Commission to apply for a loan. See "ACT 44 AND RECENT DEVELOPMENTS – Pending Legislation and Recent Developments." Further advancement of the I-79 to Mon/Fayette Expressway section cannot proceed until additional funding is identified.

The proceeds of the Commission's Oil Franchise Tax Revenue Bonds, Series A and B of 1998, and Oil Franchise Tax Revenue Bonds, Series A, B and C of 2003, and Registration Fee Revenue Bonds, Series of 2001, were 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 (as defined herein) and Registration Fee Revenues

along with other funding sources. Although the open sections of the Mon/Fayette Expressway and the Southern Beltway are toll roads, the Tolls pledged for the repayment of Senior Toll Revenue Bonds (as defined herein) will not be pledged for the financing of their construction which will be funded by Oil Franchise Tax Revenues and Registration Fee Revenues.

The Commission has no legal obligation to complete the unfinished portions of the Mon/Fayette Expressway and Southern Beltway projects at this time. However, the Commission has considered other approaches to completing such projects, due in large part to an estimated cost of \$5.2 billion to complete them. On September 17, 2008, the Commission issued a Request for Concepts/Solutions to complete such projects. The Commission received and evaluated three responses and conducted oral interviews with all respondents in March 2009. After evaluating the three responses, the Commission determined not to move forward with a request for proposals.

## **I-95 Interchange**

I-95 was completed in 1969 without an interchange connecting it to the Turnpike. Interstate travelers must either by-pass the Philadelphia area entirely or exit the interstate system and navigate a complex system of local roadways to access I-95 again in New Jersey.

The Commission is currently in the first of three phases of its Pennsylvania Turnpike/I-95 Interchange Project (the “Interchange Project”). The main objectives of the Interchange Project are to improve the linkage between I-95 and the Turnpike to create continuity in the interstate system, relieve congestion on local roads which are currently used by travelers to make the connection between I-95 and the Turnpike, create additional capacity on the Turnpike and I-95 to accommodate the transfer of traffic from the local roadway system, and improve travel times through the interchange area.

The first phase of the Interchange Project includes preparatory work and construction of a portion of the interchange between I-95 and the Turnpike Mainline, including northbound I-95 to the eastbound Turnpike Mainline and southbound I-95 to the westbound Turnpike Mainline. This phase includes construction of a new mainline toll plaza and an AET plaza westbound, and was bid on March 27, 2013. Construction has commenced and is expected to continue through 2015. The second phase will include the completion of the reconstruction and widening of the remaining interchange connectors. The third phase will be the construction of an additional bridge over the Delaware River. Funding for construction of the first phase is included in the Proposed Capital Plan.

## **ACT 44 AND RECENT DEVELOPMENTS**

### **Act 44**

Act 44, enacted on July 18, 2007, extensively revised and modified earlier legislation, added new authorities and responsibilities and required adoption of a code of conduct for executive level employees, as well as members of the Commission. Act 44 created a “public-public partnership” between the Commission and PennDOT to provide funding for roads, bridges and transit throughout the Commonwealth. Subsequently, in order to, among other things, effectuate the provisions of Act 44 requiring the Commission to make substantial annual payments to PennDOT as described below, the Commission and PennDOT entered into a Lease and Funding Agreement (the “Funding Agreement”), incorporating many of the terms of Act 44. The term of the Funding Agreement is fifty (50) years from October 14, 2007, its effective date. The Funding Agreement requires the Commission to make scheduled annual payments to PennDOT, payable in equal quarterly installments, to be used to provide funding for roads, bridges and transit in the Commonwealth. The table under “*Act 44 Payments to PennDOT for Roads, Bridges and Transit*” below indicates the amounts that have been paid by the Commission. The Commission is required by the terms of the Funding Agreement and Act 44 to fix and adjust tolls at levels that will generate revenues (together with other available moneys) sufficient to pay, among other things,

amounts to PennDOT pursuant to the Funding Agreement when due and other obligations of the Commission.

#### *Act 44 Payments to PennDOT for Roads, Bridges and Transit*

Act 44 provides that all required payments under the Funding Agreement or as required by Act 44 shall be subordinate obligations of the Commission payable solely from the General Reserve Fund established under the Senior Toll Indenture after meeting all other Commission requirements pursuant to any financial documents, financial covenants, liquidity policies or agreements in effect at the Commission. **The Commission Allocation may not be used to make payments under the Funding Agreement.**

Pursuant to the Funding Agreement, the Commission's payments to PennDOT have been allocated between deposits to the Motor License Fund for road and bridge work and deposits into the Public Transportation Trust Fund for distribution to Pennsylvania's local and regional public transportation agencies for operating and capital purposes as set forth in the following table (dollar amounts in millions):

Fiscal Year Ended May 31	Payments to Motor License Fund	Payments to Public Transportation Trust Fund	Total
2008	\$ 450.0	\$ 300.0	\$ 750.0
2009	500.0	350.0	850.0
2010	500.0	400.0	900.0
2011	200.0	250.0	450.0
2012	200.0	250.0	450.0
2013	200.0	250.0	450.0
2014	50.0	62.5	112.5 <sup>3</sup>

To date, the Commission has paid a total amount of \$3,962,500,000 under the Funding Agreement.

Act 44 provides that if the Secretary of the Budget notifies the Commission of a failure to make a payment to PennDOT under Act 44 and the Funding Agreement, all actions of the Commission taken by a vote of the Commissioners thereafter must be approved by a unanimous vote of all Commissioners until such time as the payment is made. However, under Act 44, a unanimous vote is not required if it would prevent the Commission from complying with covenants with "current bondholders, debt holders or creditors." The Funding Agreement does not refer to "current bondholders, debt holders or creditors," but provides that a unanimous vote is not required if it would prevent the Commission from complying with covenants with "bondholders, debt holders or creditors having such status as of the Effective Date," which under the Funding Agreement is defined as October 14, 2007. These voting procedures have not become effective as the Commission has not missed any payments under the Funding Agreement.

#### *Rules Relating to Governance and Accountability Under Act 44*

Act 44 sets forth certain rules relating to governance and accountability of the Commission, including, but not limited to, requiring the Commission to file an annual financial plan with the Pennsylvania Secretary of the Budget no later than June 1 of each year, and to have an audit of the Commission's finances (including a review of its performance, procedures, operating budget, capital

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<sup>3</sup> Represents the first of four scheduled payments in Fiscal Year 2014.

budget and debt) conducted by the Auditor General every four years (such audit is to be paid for by the Commission). Under Act 44, the Commission is also required to adopt a comprehensive code of conduct for Commissioners and executive-level employees, which the Commission adopted with an effective date of October 31, 2007.

On May 31, 2013, the Commission submitted its financial plan for Fiscal Year 2013-14 (the “Financial Plan”). The Financial Plan incorporates the Commission’s Proposed Capital Plan, which provides for \$6.56 billion in capital spending over the period from Fiscal Year 2013-2014 through the Fiscal Year 2022-2023. The Proposed Capital Plan allows the Commission to accelerate a number of capital improvements and to pursue new initiatives to maintain and improve the System. The Financial Plan indicates that in Fiscal Year 2012-13 the Commission was able to meet all of its financial covenants and Act 44 obligations and was able to progress with its then existing Ten-Year Capital Plan. Given the slow recovery of the economy, the Commission plans to continue the cost containment and efficiency measures it implemented within the past few years. These measures, together with future toll increases, are expected to allow the Commission to meet its financial covenants, Act 44 obligations, and capital needs during Fiscal Year 2013-14.

The Financial Plan concludes that the Commission will continue to meet all of its indenture covenants and all of its other obligations through the 2056-2057 Fiscal Year. However, as a forward-looking report, the Financial Plan makes certain assumptions, including future toll increases, to reach its conclusion that the financial covenants, Act 44 obligations and capital needs will be met beyond Fiscal Year 2013-2014. Key among these assumptions is the Commission’s ability to raise all tolls throughout the System. The Financial Plan reflects the expected full year effects of the toll increase that was effective January 2013 and the expected partial year impacts of the toll increase that is proposed to become effective in January 2014. The Financial Plan assumes the \$450 million reduced level of funding obligations required by Act 44. No assurances can be made by the Commission with respect to the assumptions made or conclusions reached in the Financial Plan. A complete copy of the Financial Plan is available on the Commission’s website at the following link: [http://www.paturnpike.com/financial/pdf/PTC\\_Fiscal\\_2014\\_Act44\\_Financial\\_Plan.pdf](http://www.paturnpike.com/financial/pdf/PTC_Fiscal_2014_Act44_Financial_Plan.pdf). See “ACT 44 AND RECENT DEVELOPMENTS – Act 44”.

For information on the most recent audit by the Auditor General, see “CERTAIN OTHER INFORMATION – Performance Audit by the Auditor General” below.

#### *Statutory Limitations on the Incurrence of Special Revenue Bonds*

Under Act 44, the Commission is authorized to issue, by resolution, Special Revenue Bonds (as defined in § 9511.2 of Act 44) up to an aggregate principal amount of \$5 billion, exclusive of original issue discount, for the purpose of paying bond related expenses and costs of PennDOT, including the costs of highway, road, tunnel and bridge construction, renovation and expansion, including acquisition of land, rights, machinery and equipment and certain finance charges relating thereto, public transportation systems, planning, engineering, administrative and other expenses, and debt service. No more than \$600 million in aggregate principal amount of such Special Revenue Bonds, exclusive of original issue discount, may be issued in any calendar year. Currently, \$798,840,630.90 (including compounded amounts as of June 1, 2013 for capital appreciation bonds) aggregate principal amount of Special Revenue Bonds are outstanding.

#### **Pending Legislation and Recent Developments**

From time to time, legislation is introduced in the Pennsylvania General Assembly (with respect to Act 44 and otherwise) and in the United States Congress, the nature and content of which may affect the Commission. The Commission cannot predict if any such legislation will be enacted into law, or how any such legislation may affect the Commission’s ability to pay the Oil Franchise Tax Obligations or its other indebtedness, or to perform its financial obligations pursuant to Act 44.

## *Commonwealth Transportation Funding and Reform Efforts*

In April 2011, Governor Corbett appointed a 40-member Transportation Funding Advisory Commission (the “TFAC”), chaired by Secretary of Transportation and Pennsylvania Turnpike Commissioner Barry Schoch, to develop a “comprehensive, strategic proposal for addressing the transportation funding needs of Pennsylvania.” In August 2011, the TFAC provided its findings and recommendations to the Governor. Specific to the Commission were certain TFAC proposals for legislative action by the General Assembly, including: amending Act 44 to shift Commission payments to PennDOT under the Funding Agreement exclusively to public transportation purposes; considering a TFAC-proposed funding package which identified specific sources to produce an annual \$2.5 billion increase for transportation; expanding tolling authority to all Pennsylvania interstate highways; and passing public-private partnership enabling legislation.

Various bills were introduced in the General Assembly during its most recent session that ended on November 30, 2012, and have been or are expected to be re-introduced in the current legislative session that commenced on January 1, 2013, to implement one or more recommendations of the TFAC, including bills which would:

- Amend Act 44 to shift Commission payments exclusively to public transportation purposes; and
- Increase various motor vehicle penalties and fees and redefine the calculation of the “average wholesale price” on taxable liquid fuels for purposes of increasing revenues available for transportation purposes. (The Oil Franchise Tax is imposed on liquid fuels. See “OIL FRANCHISE TAX” in the forepart of this Official Statement.)

Act 88 of 2012 (formerly House Bill 3 and Senate Bill 344) was signed into law by Governor Corbett on July 5, 2012. Act 88 authorizes “public-private” transportation partnership arrangements in the Commonwealth. The law allows the Commission, among other public entities, to enter into public-private partnerships for the construction of transportation infrastructure and facilities and for the lease of such facilities through long-term agreements. Act 88 prohibits a lease of the Turnpike Mainline without the further express approval of the General Assembly. However, the law does not restrict the Commission from entering into public-private partnership agreements which do not involve granting substantial oversight and control over the Turnpike Mainline to another entity, nor does it limit or preempt in any way the Commission’s ability to enter into certain types of public-private partnership agreements currently allowed under its Enabling Acts. The Public Private Transportation Partnership Board, established pursuant to Act 88, has issued an Implementation Manual & Guidelines for public private transportation projects.

### *Other Pennsylvania Legislative Proposals*

Representative Robert Godshall has reintroduced legislation proposing to terminate the Commission’s payment obligations under the Funding Agreement on the grounds that they are unsustainable. The bill was referred to the House Transportation Committee in January 2013 as House Bill 209.

Among legislation, either in discussion or introduced in the General Assembly that could affect the Commission include bills which would accomplish the following:

- Require that PennDOT assume the operating functions of the Commission and that the Commonwealth assume the financing functions of the Commission, that certain assets of the Commission be transferred to PennDOT and the State Treasurer, and that the Commission and the office of Turnpike Commissioner be abolished. (House Bill 1197 was introduced and referred to the House Transportation Committee on April 16, 2013.)

- Affect future pension contributions by the Commission (and other Commonwealth employers) by switching future public employees (including Commission employees) from a defined benefit plan to a defined contribution plan. For more details about this proposed legislation, see “CERTAIN OTHER INFORMATION – Retirement Plan” below.

The Commission cannot predict what other legislation may be considered by the General Assembly during the 2013-2014 or future legislative sessions or if any other proposals or initiatives may lead to the adoption of legislation that may affect the Commission.

*Recent Statements by Governor Corbett and Other Developments Regarding Potential Statewide Transportation Funding Initiatives*

In public statements earlier this year, both Governor Tom Corbett and Secretary of Transportation and Pennsylvania Turnpike Commissioner Barry Schoch referenced the Corbett administration’s intention to present a comprehensive, multi-modal statewide transportation funding plan early in 2013. During his budget address on February 13, 2013, the Governor outlined a \$1.8 billion transportation proposal to the General Assembly. Details, including the public announcement, plan elements, and related statements can be found on the Pennsylvania Department of Transportation website. The Governor’s plan draws from several components and recommendations of the 2011 TFAC Report located at <http://www.tfac.pa.gov/>.

The Governor’s transportation proposal includes several components of note with impact to the Commission including the termination of Act 44 obligations by 2023, re-purposing the distribution of Act 44 payments to PennDOT during 2013-2023, expanding the use of toll collection technology, providing additional toll enforcement tools and lifting the oil franchise tax cap. To date, the Governor’s specific transportation funding plan has not been introduced as a legislative bill, however the Commission is actively engaged in discussions with members of the General Assembly, the Governor’s office, PennDOT, and other transportation stakeholders regarding these concepts.

On April 16, 2013, Senator John Rafferty, Senate Transportation Committee Chairman, announced a comprehensive \$2.5 billion transportation funding bill (Senate Bill 1). Senator Rafferty’s proposal includes many components of the Governor’s original proposal, but also includes additional transportation funding initiatives. Among the changes are increased fees, accelerating the elimination of the oil franchise tax cap, imposing surcharges for moving violations and eliminating the Commission’s Act 44 obligations by the end of the Commonwealth’s fiscal year 2020-2021. Details can be found on Senator Rafferty’s website, <http://www.senatorrafferty.com/transportation-funding-bill/>. Senate Bill 1 was passed in the Senate on June 5, 2013 by a vote of 45-5. Senate Bill 1 has been introduced in the House of Representatives and was referred to the House Transportation Committee on June 10, 2013. The House Transportation Committee has held a series of hearings on Senate Bill 1. On June 27, 2013, the House Transportation Committee approved an amended version of SB 1. Substantive changes to Senate Bill 1 were included in the House version of the bill. The Pennsylvania General Assembly adjourned in early July 2013 for its summer recess without further action on Senate Bill 1. It is premature at this time to assess the prospects of such proposed transportation funding initiatives and how such potential legislation might impact the Commission.

*Public Debate over Commission’s Obligations under Act 44 Funding Agreement*

There is ongoing public debate as to whether to maintain, modify or discontinue the current transportation funding requirements reflected in Act 44 (i.e., \$450 million each year payable to PennDOT). See also “Pending Legislation and Recent Developments – *Recent Statements by Governor Corbett and Other Developments Regarding Potential Statewide Transportation Funding Initiatives*” above with respect to Senate Bill 1 and House Bill 209.

Last year, former Pennsylvania Auditor General Wagner issued public letters, and testified at public hearings before the House and Senate Transportation Committees of the Pennsylvania General Assembly, asserting that the Commission's payment obligations under Act 44 (and the underlying debt load required to fund such payments) were of an unsustainable magnitude and constituted a long-term threat to the financial well-being and even continued existence of the Commission, and he urged the General Assembly to eliminate such obligations.

The Commission responded (both in public letters and at joint legislative hearings) that it acknowledged that managing the debt load imposed by Act 44 was an ongoing challenge but denied that it was facing a financial crisis. The Commission is confident that it has developed a sound, financially responsible, long-term plan under which it will be able to meet all its future payment obligations, including the \$450 million annual payments to PennDOT under Act 44, while continuing to operate and maintain the Turnpike System in a state of good repair, support a newly-enhanced capital investment program, and ensure customer safety and convenience.

For copies of the public letters exchanged between the former Auditor General and the Commission, see [www.paturnpike.com/Press/2012/20120105171343.htm](http://www.paturnpike.com/Press/2012/20120105171343.htm).

The new Pennsylvania Auditor General, the Honorable Eugene DePasquale, was sworn into office in January 2013. On June 18, 2013, Auditor General DePasquale testified before the House Transportation Committee regarding his office's opinion of the potential financial implication to the Commission from its ongoing Act 44 obligations to fund statewide transportation projects. Further, Auditor General DePasquale issued a report summarizing his office's findings with respect to the Commission's ongoing Act 44 obligations. In his report, Mr. DePasquale expressed concern regarding future projected toll increases and questioned the traffic volume projections in the Commission's traffic study. Among Mr. DePasquale's conclusions were that Act 44 is detrimental to the Commission's financial condition and that it must be phased out concurrently with implementation of a self-sustaining and predictable transportation package. A copy of the report can be found on the Auditor General's website at <http://www.auditorgen.state.pa.us>.

In response to the ongoing public debate regarding the future of the Commission's Act 44 obligations, the Commission's CEO issued a public statement on June 18, 2013 in support of the Governor and Senator Rafferty for proposing a phase-out of the Commission's Act 44 payments, but cautioned that if relief from its Act 44 obligations is not enacted, the Commission may have to drastically reduce its capital spending. Since a comprehensive transportation funding bill that, among other things, addresses the Commission's long-term Act 44 obligations has not been enacted to date, the Commission has begun the process of re-evaluating its proposed capital spending program for current and future fiscal years.

#### *Federal Surface Transportation Reauthorization*

On July 6, 2012, President Obama signed into law a two-year federal transportation funding bill (the "2012 Transportation Act"). The 2012 Transportation Act provides continued funding for federal transportation programs at approximately \$54 billion per year. Because neither the operations of the Commission nor its capital programs depend, to any material extent, upon the continuing availability of federal funding, the Commission does not believe that the 2012 Transportation Act will have a material effect on the financial condition or results of operations of the Commission.

#### *Statewide Investigating Grand Jury and Recent Criminal Charges*

In May, 2009, a statewide grand jury investigation was commenced as a result of public allegations of potential public corruption and criminal misconduct within the Commission (the "Grand

Jury Investigation”).<sup>4</sup> As part of this investigation, covering Turnpike operations during an approximate period from February 2000 through early 2013, the Grand Jury heard testimony from hundreds of witnesses and reviewed numerous exhibits, including correspondence, e-mails, campaign contribution records, audio recordings, invoices, bank records, internal Turnpike policies and memoranda, and expense reports, among other items. The Grand Jury Investigation spanned forty-four months and culminated on March 13, 2013, when the Grand Jury issued its 85-page Presentment (the “Grand Jury Presentment”), detailing its findings of fact, conclusions, and recommendations of charges.<sup>5</sup>

The Grand Jury found that certain elected state officials, a former Commissioner, officials, and employees, and vendors and consultants that had business dealings with the Commission engaged and attempted to engage in systemic illegal bid-rigging, commercial bribery, conflict of interest crimes, theft by unlawful taking, theft by deception, criminal conspiracy and corrupt organization crimes. In addition, a former Commissioner, who resigned shortly after the Grand Jury Presentment was released, was granted immunity in connection with his testimony before the Grand Jury. The Grand Jury concluded that these criminal acts resulted in the public losing millions of dollars. The Grand Jury further concluded that the Commission has been corrupted by improper political influence from certain of its own former officials as well as politicians in state government.

The Grand Jury identified a former Pennsylvania state senator, a former chairman of the Commission, a former Chief Executive Officer of the Commission, a former Chief Operating Officer of the Commission, two other former Commission employees and two individuals at vendors providing services to the Commission as having criminal responsibility for the crimes outlined in the Grand Jury Presentment.

In addition, the Grand Jury found that during the time that the identified individuals were employed by or served at the Commission, the Commission operated under a system that rewarded vendors with multi-million dollar contracts in exchange for the payment of political contributions to public officials and political organizations and the payment of gifts and entertainment expenses. In particular, the Grand Jury found that the named former State Senator, during his tenure as Democratic Floor Leader, was actively involved in securing Commission contracts for key contributors and supporters, and imposing fundraising participation on individuals at the Commission to provide political support and raise campaign funds on his behalf.

The Grand Jury cited specific political contributions that were allegedly solicited in exchange for awarding various contracts with the Commission. These campaign contributions were allegedly made during the approximate period of February, 2000 through October, 2010. The Grand Jury also identified specific contracts that it determined were awarded to vendors as a result of their political contributions and other payments.

On March 13, 2013, the Pennsylvania Attorney General filed criminal charges against the individuals referred to above. These individuals are charged with a variety of offenses, including conspiracy, commercial bribery, bid-rigging, theft, conflict of interest, and corrupt organization violations. No criminal charges have been filed against current Commissioners, senior management, or employees of the Commission. All Commission employees and officials against whom criminal charges were filed left the Commission between March, 2009 and November, 2011. In her statement on March 13<sup>th</sup>, the Attorney General stated: “The Grand Jury heard evidence of secret gifts of cash, travel, and

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<sup>4</sup> The Grand Jury Investigation was initially commenced before the 31<sup>st</sup> Statewide Investigating Grand Jury in May of 2009. Upon the expiration of that Grand Jury, the investigation was transferred to the 33<sup>rd</sup> Statewide Investigating Grand Jury in June of 2011. For purposes of this disclosure, the 31<sup>st</sup> and 33<sup>rd</sup> Statewide Investigating Grand Juries will be referred to collectively as the “Grand Jury.”

<sup>5</sup> For a copy of the complete Grand Jury Presentment, see [http://www.attorneygeneral.gov/uploadedFiles/Press/Turnpike\\_Grand\\_Jury\\_Presentment.pdf](http://www.attorneygeneral.gov/uploadedFiles/Press/Turnpike_Grand_Jury_Presentment.pdf).



entertainment, and the payment of substantial political contributions to public officials and political organizations, by private Turnpike vendors and their consultants, demonstrates that the Turnpike operates under a pay-to-play system that is illegal and corrupt.” Preliminary hearings for six of the eight individuals charged were held during the week of June 24, 2013 (excluding the two individuals referred to above as “other former Commission employees”). Final arguments in the preliminary hearings were held on July 16, 2013 and the six individuals were held for trial. With respect to the “two other former Commission employees”, one waived his preliminary hearing and a preliminary hearing is scheduled for the other former Commission employee on September 16, 2013.

The Commission’s current Chief Executive Officer, Mark Compton, issued a statement following the publication of the Grand Jury Presentment. Mr. Compton explained that the Turnpike began revamping its procurement process resulting in more transparency and greater accountability two years ago. Moreover, the Turnpike is continuing to evaluate the procurement process and is committed to making improvements where needed. Mr. Compton also announced that he directed the Turnpike’s Office of Compliance to launch a thorough review of every professional-services contract cited in the Grand Jury Presentment, and provide each of the Turnpike’s professional-service providers a copy of the Turnpike’s employee code of conduct and the professional services procurement policy that was enacted in April, 2012. Finally, the Commissioners of the Turnpike directed Mr. Compton to convene a special advisory group to review and critique Turnpike policies and procedures relating to contracting and other business practices to make improvements to the Turnpike’s existing practices. Mr. Compton recently announced the appointment of the members of the special advisory committee. Committee members are to meet regularly to review and critique Turnpike contracting policies and other business practices and to research best-practices at comparable agencies to determine where further improvements can be made. Additionally, the Commission has initiated a comprehensive, mandatory code of conduct and ethics training program for its employees which is scheduled to commence in September 2013. See “Commission Compliance Department” and “Commission Office of Inspector General” under “CERTAIN OTHER INFORMATION” for additional information.

#### *Additional Matters*

Consistent with recommendations of the TFAC, the Commission continues to be actively engaged with other Commonwealth administrative agencies in initiatives to streamline project delivery and increase operational efficiencies. Among such undertakings are the development of a pilot program with PaDEP for more expeditious third-party review of environmental permits, and a number of collaborative programs with PennDOT in various administrative and technical areas, including integration of communication and information systems, standardization of manuals and publications, and coordination of training, operations, project planning and construction phasing (all as outlined in an August 2011 report entitled *Mapping the Future between the Pennsylvania Turnpike Commission and the Pennsylvania Department of Transportation*). Meetings of Commission management with executives of both PaDEP and PennDOT continue to be held on a regular basis to discuss issues, define direction and explore future collaborative initiatives.

### **CERTAIN OTHER INFORMATION**

#### **Revenue Sources of the Commission; Bonds of the Commission**

The Commission’s revenues are principally derived from three separate sources: toll revenues from the operation of the System; revenue derived from a portion of the Commonwealth’s Oil Franchise Tax; and revenue derived from a portion of the Commonwealth’s vehicle registration fee revenues. Neither toll revenues from the operation of the System, nor the revenue derived from a portion of the Commonwealth’s vehicle registration fee revenues are pledged to secure the 2013 Bonds.

*Tolls.* The 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”) constitute one of the Commission’s three principal streams of revenues. The Tolls are presently pledged to secure the Commission’s outstanding turnpike senior toll revenue bonds (the “Senior Toll Revenue Bonds”) issued under the Amended and Restated Trust Indenture dated as of March 1, 2001 between the Commission and U.S. Bank National Association, as trustee (as amended and supplemented, the “Senior Toll Indenture”) and other parity obligations (including certain interest rate swap agreements) issued under the Senior Toll Indenture. \$3,338,375,000 aggregate principal amount of Senior Toll Revenue Bonds are currently outstanding under the Senior Toll Indenture. Under the Senior Toll Indenture, the Commission is also authorized to issue subordinate obligations secured by Tolls, but it has not done so. (The obligations subject to or issued under the Senior Toll Indenture are referred to herein as the “Senior Toll Indenture Obligations”). **Tolls are not pledged to secure Oil Franchise Tax Revenue Bonds, including the 2013 Bonds.**

*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”). Upon the issuance of the Series 2013 Bonds, a total of \$765,973,254 (including compounded amounts as of June 1, 2013 for capital appreciation bonds) of the Commission’s Oil Franchise Tax Revenue Bonds will be issued and outstanding. The Oil Franchise Tax Revenue Bonds, including the 2013 Bonds, are secured solely by the Trust Estate consisting primarily of the Commission Allocation, investment earnings thereon, and the Issuer Subsidy (as defined in the Indenture). The Oil Franchise Tax Revenues are not pledged to secure any Senior Toll Indenture Obligations, any Subordinate Indenture Bonds (as defined herein), or any Registration Fee Revenue Bonds (as defined herein). Proceeds of the outstanding Oil Franchise Tax Revenue Bonds were used to finance portions of the Mon/Fayette Expressway and the Southern Beltway.

*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 \$416,930,000 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 Revenues are not pledged to secure Oil Franchise Tax Revenue Bonds, including the 2013 Bonds.**

*Subordinate Indenture Bonds.* The Commission and Wells Fargo Bank, N.A., as trustee are parties to the Subordinate Trust Indenture dated as of April 1, 2008 (as amended and supplemented, the “Subordinate Trust Indenture”). Currently, \$3,528,246,520.05 aggregate principal amount of subordinate revenue bonds (including compounded amounts as of June 1, 2013 for capital appreciation bonds) (the “Subordinate Indenture Bonds”) and \$798,840,630.90 aggregate principal amount of Special Revenue Bonds (including compounded amounts as of June 1, 2013 for capital appreciation bonds) are outstanding under the Subordinate Trust Indenture. Subordinate Indenture Bonds and Special Revenue Bonds are secured by sums transferred from the Commission’s General Reserve Fund to the trustee under the Subordinate Trust Indenture. Special Revenue Bonds are also payable from certain funds available in the Commonwealth’s Motor License Fund.

The Senior Toll Revenue Bonds, the Subordinate Indenture Bonds and the Registration Fee Revenue Bonds are not secured by or do not have any interest in the Trust Estate.

The ability of the Commission to repay such borrowings 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 declines in motor vehicle acquisition or operating cost increases could adversely affect the number of motor vehicles in use. An increase in the cost of fuel 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 the Commission's revenues. See "CERTAIN RISK FACTORS" in the forepart of this Official Statement.

### **Budget Process**

The Commission's Accounting 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 Finance 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 Board of Commissioners for formal approval.

In addition, Act 44 requires the Commission to prepare and submit to the Secretary of the Budget a Financial Plan no later than June 1 of each year for the ensuing Fiscal Year, describing its proposed operating and capital expenditures, borrowings, liquidity and other financial management covenants and policies, estimated toll rates and all other revenues and expenses. The purpose of the Financial Plan is to demonstrate that the Commission's operation in accordance with such plan can be reasonably anticipated to generate unencumbered funds sufficient to make all payments due to PennDOT under Act 44 and the Funding Agreement in the upcoming year after all Commission obligations and interest thereon, sinking fund requirements of the Commission, other requirements in any trust indentures, notes or resolutions, have been met. Any deviations and the causes therefore in prior year plans must be explained. The Commission delivered the Act 44 Financial Plan for Fiscal Year 2013-14 (June 1, 2013 through May 31, 2014) in a timely fashion to the Secretary of the Budget, and expects to deliver the Act 44 Financial Plan for Fiscal Year 2014-15 on or prior to June 1, 2014.

### **Five Year Financial History**

The following tables I and II summarize the financial history of the System for the five fiscal years from 2008 to 2013. The financial statements are a combination of cash basis financial statements with certain accruals included. Tables I and II should be read in conjunction with the financial statements prepared in accordance with generally accepted accounting principles and related notes included in "APPENDIX B – AUDITED 2011 AND 2012 FINANCIAL STATEMENTS."

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**TABLE I**  
**Number of Vehicles and Fare Revenues – Summarized by Fare Classification**  
**(000's Omitted)<sup>6</sup>**

	<b>Fiscal Year Ended May 31</b>				
	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>
<b>Number of Vehicles:</b>					
Passenger	162,637	163,599	165,230	164,960	163,690
Commercial	235,82	22,933	23,812	24,127	24,207
Total	186,219	186,532	189,042	189,087	187,897
<b>Fare Revenue</b>					
Passenger	\$353,885	\$407,368	\$435,751	\$455,133	\$471,514
Commercial	284,359	310,670	328,105	342,646	350,226
Total	638,245	718,038	763,856	797,779	821,740
Discount	-22,640	-24,211	-24,152	-16,981	-10,198
Net Fare Revenues	\$615,605	\$693,827	\$739,704	\$780,798	\$811,542

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<sup>6</sup> Does not include Oil Franchise Tax Revenues or Registration Fee Revenues.

**TABLE II**  
**Summary of System Revenues and Operating Expenditures Before Interest and Other Charges<sup>7,8</sup>**  
**(000's Omitted)**  
**Years Ended May 31**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>Revenues</b>					
Net Toll Revenues	\$615,605	\$693,827	\$739,704	\$780,798	\$811,542
Concession Revenues	3,087	2,868	2,728	3,167	3,302
Interest Income (non bond proceeds)	6,478	5,560	11,089	15,771	19,497
Miscellaneous	14,816	13,337	16,202	19,923	16,792
<b>Total Revenues</b>	<b>639,986</b>	<b>\$715,592</b>	<b>\$769,723</b>	<b>\$819,659</b>	<b>\$851,133</b>
<b>Operating Expenditures</b>					
General & Administrative	\$43,378	\$41,467	\$33,528	\$40,335	\$42,542
Operations Safety & Incident Response	3,308	4,048	3,979	4,078	4,455
Service Centers	17,497	19,596	20,384	25,570	24,480
Employee Benefits	72,767	69,387	70,441	77,563	80,670
Fare Collection	60,318	63,087	64,944	61,884	59,952
Normal Maintenance	61,327	64,347	65,285	58,096	65,924
Facilities and Energy Mgmt. Operations	112	80	2,866	7,644	8,903
Turnpike Patrol	34,127	34,337	34,056	34,658	36,171
<b>Total Operating Expenditures</b>	<b>\$292,834</b>	<b>\$296,349</b>	<b>\$295,483</b>	<b>\$309,828</b>	<b>\$323,097</b>
Revenues less Operating Expenditures	\$347,152	\$419,243	\$474,240	\$509,831	\$528,036
Senior Annual Debt Service Requirement	\$153,568	\$127,866	\$120,570	\$145,906	\$142,552
Coverage Ratio	2.26	3.28	3.93	3.49	3.70
Annual Subordinate Debt Service Requirement	\$12,066	\$86,977	\$123,186	\$130,713	\$156,067
Coverage Ratio	2.10	1.95	1.95	1.84	1.77
Annual MLF Enhanced Debt Service Requirement			\$1,541	\$10,063	\$20,305
Coverage Ratio			1.93	1.78	1.66

In light of traffic volume and revenues continuing to be adversely impacted by general economic conditions, the staff of the Commission has reviewed various cost reduction initiatives, including, among other things, staff reductions through attrition, elimination of vacant positions, elimination of positions which are no longer required, and early retirement programs.

<sup>7</sup> This summary of revenues and expenditures is not intended to present results of operations in conformity with generally accepted accounting principles. Debt service is net of amounts funded from capitalized interest and receipt of the federal subsidy on the Commission's Build America Bonds.

<sup>8</sup> Does not includes Oil Franchise Tax Revenues or Registration Fee Revenues or debt service on the Oil Franchise Tax Revenue Bonds or Registration Fee Revenue Bonds.

## Financial Policies and Guidelines

The Commission's Investment Policy and Guidelines, adopted on June 6, 1997 and amended from time to time thereafter (the "Investment Policy"), sets forth the purpose, objectives and investment guidelines for eligible securities for the investment of financial assets of the Commission. Eligible securities include those that are consistent with the Senior Toll Indenture. For a discussion of the Commission's concentration of credit risk to particular issuers, see Note 4 to the Financial Statements.

The Investment Policy provides that appropriate benchmarks shall be developed for the various funds invested by the Commission and that the returns of the Commission's individual portfolio segments are to be compared to such benchmarks. Pursuant to the Investment Policy, the Commission's Investment Policy Committee must prepare an investment report for the Commissioners on a quarterly basis, including a management summary including the status of the current investment portfolio and transactions made over the latest reporting period. The report is to include investment performance and demonstrate conformity with the Investment Policy.

The Commission adopted three additional financial policies on April 20, 2004: a Debt Management Policy, an Interest Rate Swap Management Policy (the "Swap 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, ongoing evaluation and reporting of all debt obligations.

The Debt Management Policy establishes parameters and provides guidance governing the issuance and management of Commission debt. It addresses such issues as usage of unhedged variable rate debt, rate covenants and limitations on additional bonds and disclosure.

The Liquidity Standard Policy requires that the Commission maintain sufficient year-end fund balances to ensure levels of uncommitted reserves necessary to secure and protect its long-term debt and other financial obligations. Under this policy, the Commission budgets and maintains cumulative fund balances, including balances in the Reserve Maintenance Fund and the General Reserve Fund, equal to the greater of maximum annual debt service on those bonds not secured by a debt service reserve fund or 10% of annual budgeted revenues.

The Swap Policy establishes guidelines for the use and management of all interest rate management agreements, including, but not limited to, interest rate swaps, swap options, caps, collars and floors (collectively, "Swaps") incurred in connection with the incurrence of debt. The Commission's Swap Policy was amended in May 2013 to reflect current regulations and best practices in the derivatives industry.

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

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

Annual Swap Report. The Commission's Chief Financial Officer, 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 Swap 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 Governmental Accounting Standards Board ("GASB") or other applicable regulatory agencies.

The Commission has interest rate exchange agreements with respect to its Senior Toll Revenue Bonds, Series 2006A, Series 2008B, Series 2009A, Series 2009C, Series 2010B, Series 2011C, Series 2011D, Series 2012B and a portion of its Series 2013B Bonds. In addition, the Commission has interest rate exchange agreements with respect to its Registration Fee Revenue Bonds, Series 2005, and Oil Franchise Tax Revenue Bonds, Series 2003C. As of July 31, 2013, the aggregate market value of the swaps to the counterparties thereto from the Commission was calculated to be approximately \$68,694,354 (negative value to the Commission) with respect to swaps relating to the Senior Toll Revenue Bonds referred to above, \$41,141,181 (negative value to the Commission) with respect to swaps relating to the Registration Fee Revenue Bonds referred to above, and \$2,175,605 (negative value to the Commission) with respect to swaps relating to the above-referenced Oil Franchise Tax Revenue Bonds. See Note 4, Note 8, and Note 13 to the Financial Statements. The Commission does not have any interest rate exchange agreements associated with its Subordinate Indenture Bonds or Special Revenue Bonds.

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. 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 Swap Policy will prevent the Commission from suffering adverse financial consequences as a result of these transactions.

*The policies of the Commission described above may be revised or amended at any time at the discretion of the Commission.*

### **Performance Audit by the Auditor General**

Act 44 requires the Auditor General of the Commonwealth to conduct an audit of the accounts of the Commission and to review its performance, procedures, operating budget, capital budget and debt every four years. The Act of October 23, 1988, P. L. 1059, No. 122 (“Act 122”) also requires the Auditor General to conduct a financial audit and a compliance audit of the Commission every four years.

On January 8, 2013, former Auditor General Wagner issued a final report presenting the results of his quadrennial audit of the Commission under Act 44 and Act 122. The financial portion of the audit covered the period from June 1, 2005 to May 31, 2010, and the performance portion of the audit covered the period from June 1, 2007 to August 31, 2011. The Auditor General’s office did not conduct its own financial audit but reviewed audits and supporting documentation of the independent firm that audits the Commission’s financial statements annually, including working papers for the five fiscal years ended May 31, 2006 through May 31, 2010.

The audit report included recommendations to the Commission with respect to the following areas:

- non-revenue use of the Turnpike by Commission employees;
- non-revenue use of the Turnpike by nearly 5,000 consultants, contractors, and other state government officials;
- the monitoring, audit and evaluation by the Commission of the E-ZPass system;
- continued or expanded monitoring, review and inspection of the Turnpike’s tunnels;
- reimbursement of the travel and other expenses of Turnpike commissioners; and
- the Commission’s use of interest rate swaps as part of its overall debt-management practices.

On January 2, 2013, in response to the release by the former Auditor General of a draft report, the Commission’s then Acting Chief Executive Officer responded by letter to former Auditor General Wagner, addressing the proposed recommendations of the Department of Auditor General. On January 8, 2013, upon release of the final report, the Commission issued a press release making available to the public the Commission’s response to the audit report.

The full text of the Department of Auditor General’s final report may be found at [http://www.auditorgen.state.pa.us/departments/press/PTC\\_Report\\_final\\_01082013.pdf](http://www.auditorgen.state.pa.us/departments/press/PTC_Report_final_01082013.pdf). For the Commission’s response, see <http://www.paturnpike.com/press/2013/20130108145419.htm>.

### **Insurance**

The Commission maintains All-Risk Property, Builders’ Risk, Public Official bonds, Crime and Fiduciary insurance coverage and is self-insured for Workers’ Compensation, Auto Liability, and General Liability claims.



For capital projects, the Commission maintains Builders' Risk Insurance that covers buildings and structures, including temporary structures, while being constructed, erected or fabricated on Commission property. This insurance provides coverage against risk of physical damage and/or loss (subject to policy exclusions) to all buildings and structures during construction. Upon completion, a project is then covered under an All Risk Insurance policy that has a \$125 million per occurrence policy limit.

Deductibles range in amount depending on the line of coverage and the nature of the claim. For bridges, tunnels, overpasses, underpasses and viaducts, the deductible is \$2 million. For buildings (including contents), toll plazas and equipment, warehouses and similar facilities, the deductible is \$1 million.

Certain pre-specified construction projects are insured under an "Owner Controlled Insurance Program" (OCIP) until completion. Under these programs, the Commission, contractors and subcontractors are insured for Workers Compensation, General Liability, Builders' Risk and other project-specific insurance with limits and large deductibles varying by project.

### **Personnel and Labor Relations**

As of August 1, 2013, the Commission employed 2,126 persons, consisting of 499 management employees, 1,530 full-time union members, and 97 temporary union employees. Seventy-two and four-tenths percent (72.4%) of all employees are engaged in maintenance operations and fare collection.

In an effort to meet funding obligations and contain costs, in 2008 the Commission reduced overhead by eliminating vacant positions, offered early retirement incentives to eligible staff members, implemented a reduction-in-force program for positions no longer required, and reduced salary and benefit expenses by cutting 15 management positions. Subsequently, the Commission also reduced overtime by permanently shifting schedules, reduced expenses, and implemented a management pay freeze during Fiscal Years 2009-10 and 2010-11, and the first half of Fiscal Year 2011-12. As a result, the Commission currently employs 319 fewer employees, or 12.51% less, than it did in 2002, the peak employment year over the past 11 years.

The civil service requirements applicable to the state government do not apply to employees of the Commission.

The Commission and the Teamsters' Local Union entered into three collective bargaining agreements and one memorandum of understanding covering central office, field, professional and first level supervisory personnel, all of which became effective on October 1, 2007; the three collective bargaining agreements expired on September 30, 2011. An agreement has been reached with one bargaining unit, which is subject to membership ratification and Commission approval. No extension to the other collective bargaining agreements has been executed and negotiations are ongoing. The unions retain their right to strike during negotiations. The memorandum of understanding has no termination date. Since union representation began, the Commission has experienced one work stoppage which occurred on November 24, 2004 and lasted for seven days.

### **Retirement Plan**

The State Employee's Retirement System of the Commonwealth ("SERS") is one of the nation's oldest and largest statewide retirement plans for public employees. SERS administers both a defined benefit plan and a defined contribution plan. The defined benefit plan is funded through a combination of employee contributions, employer contributions and investment earnings. The defined contribution plan (Commonwealth of Pennsylvania Deferred Compensation Program) is funded by voluntary employee contributions and investment earnings.

Substantially all employees of the Commission are covered by SERS. The costs of the defined benefit 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 SERS with assets sufficient to meet the benefits to be paid to SERS members.

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, but before January 1, 2011, 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. Retirement benefits for Class A and AA employees vest after 5 years of credited service. Class A and AA employees who retire at age 60 with three years of service or with 35 years of service if under age 60 are entitled to an unreduced annual retirement benefit.

On November 23, 2010, Pennsylvania Act 120 of 2010 ("Act 120") was enacted. Under this legislation, effective January 1, 2011, benefit reductions are mandated for future SERS members; however benefits for current members are preserved. As described below, new employees are subject to a higher contribution rate, an increase in the vesting period from five to ten years, elimination of lump-sum withdrawals, and an increase to the normal retirement age to obtain full, unreduced pension benefits. Act 120 established Class A-3 and Class A-4 memberships, and effective January 1, 2011, all new members to the System must elect one of these new membership classes. New members who elect Class A-3 will accrue benefits at 2% of their final average salary multiplied by years of service. Those members choosing Class A-4 will accrue benefits at 2.5% of their final average salary multiplied by years of service. Under Act 120, retirement benefits for Class A-3 and A-4 vest after 10 years of credited service. Class A-3 and A-4 members who retire at age 65 with three years of service or when the member's age (last birthday) plus his/her completed years of credit service total at least 92 (Rule of 92) are entitled to an unreduced annual retirement benefit. Members hired prior to January 1, 2011 retain their current full benefit provision of 35 years of credited service.

Covered Class A, Class AA, Class A-3 and A-4 employees are required by statute to contribute to SERS at a rate of 5.00%, 6.25%, 6.25% and 9.30% respectively, of their gross pay. Employees' contributions are recorded in individually identified accounts, which are also credited with interest, calculated quarterly to yield 4.00% 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 SERS with assets sufficient to meet the benefits to be paid to SERS members. The Commission's required retirement contribution, as a percentage of covered payroll, by class for the most recent five Fiscal Years of the Commonwealth is as follows:

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<u>Year Ended June 30</u> <u>(Commonwealth's Fiscal Year)</u>	<u>Class A</u>	<u>Class AA</u>	<u>Class A-3</u>	<u>Class A-4</u>
2013	8.43%	10.51%	7.29%	7.29%
2012	5.59	6.99	4.83	4.83
2011	3.29	4.11	4.11	4.11
2010	2.52	3.15		
2009	2.64	3.29		

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

<u>Year Ended May 31</u>	<u>Commission Required</u> <u>Contribution</u> <u>(in millions)</u>	<u>Percent Contributed</u>
2013	\$12.0	100%
2012	7.9	100
2011	5.3	100
2010	4.0	100
2009	3.8	100

The Commission has budgeted \$19.0 million for Fiscal Year 2014.

A copy of SERS's annual financial statements may be obtained by writing to: State Employees' Retirement System, 30 North Third Street, P.O. Box 1147, Harrisburg, Pennsylvania, 17108-1147. Additional information about SERS, including its Comprehensive Annual Financial Reports and actuarial valuation reports, are available at [www.sers.state.pa.us](http://www.sers.state.pa.us).

On July 6, 2010, Pennsylvania Act 2010-46 was enacted which reduced the employer contribution rates for Fiscal Year 2010-11, thus reducing the Commission's contribution rates for the 2010-11 Fiscal Year from 3.80% for Class A employees and 4.75% for Class AA employees to 3.29% for Class A employees and 4.11% for Class AA employees. This rate reduction was only for one year.

Act 120 imposes limits referred to as "collars" on annual increases to employer contribution rates (i.e., the employer contribution rate for a particular year may not exceed the sum which results from adding the collar applicable for such year to the prior year's contribution rate). The collared percentage point increases are 3.0 for the fiscal year ended June 30, 2012, 3.5 for the fiscal year ending June 30, 2013 and 4.5 each year thereafter until no longer needed. These limitations are intended to reduce spikes in employer contributions.

For more information on SERS, including Act 120, see the SERS website at [www.portal.state.pa.us/portal/server.pt/community/pension\\_funding/19115](http://www.portal.state.pa.us/portal/server.pt/community/pension_funding/19115) and the disclosure beginning on page 57 of the Official Statement for the Commonwealth of Pennsylvania General Obligation Bonds, First Series of 2013, dated April 3, 2013, a copy of which may be found at <http://emma.msrb.org/IssueView/IssueDetails.aspx?id=EP360872>.

During the current session of the General Assembly, legislation was introduced (House Bill 1350 and Senate Bill 922, which were both based, in part, upon a proposal put forth by Governor Corbett) which, if enacted, would affect future required pension contributions by the Commission (and other Commonwealth employers) for its employees by changing, in part, Pennsylvania's pension system for future Commonwealth employees (including Commission employees) from a defined benefit plan to a

defined contribution plan, similar to 401(k) plans prevalent in the private sector. The proposed legislation makes no changes for current retirees nor would it make changes to the benefits already earned by current employees. Future benefits for current employees would be modified to reduce the retirement multiplier by 0.5 percent for all employees currently above a 2.0 times multiplier. In addition, the existing employer contribution rate collars, as implemented by Act 120, would be reduced. At present, the Act 120 collars have the effect of limiting the year-over-year increase in the employer contribution rate to 4.5 percent annually. The proposed legislation would reduce the Act 120 collars from 4.5 percent to 2.25 percent. The contribution collar rates would then rise 0.5 percent per year until reaching 4.5 percent or the annual required contribution level. Both House Bill 1350 and Senate Bill 922 have been introduced in their respective houses of the General Assembly and have been referred to the appropriate legislative committee for hearings. Following hearings in both chambers, House Bill 1350 and Senate Bill 922 were amended separately and divergently in the respective legislative committees of the House and Senate. In general, most provisions of Governor Corbett's original proposal were deleted and replaced with a varying proposal to shift all or portions of all new state employees to a defined contribution plan. Neither bill has been approved by either chamber to date. It is premature to predict the prospects of this (or similar) legislation in the General Assembly during the remainder of the current legislative session.

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

The Commission maintains a welfare plan program (the "Plan"), one purpose of which is to provide benefits to eligible retirees and their dependents. The Commission established the Pennsylvania Turnpike Commission Retiree Medical Trust (the "Trust") on May 30, 2008 as an irrevocable trust, tax-exempt under the Internal Revenue Code, to provide funding of the Plan's other post-employment benefits ("OPEB" or the "Benefits"). Plan benefit provisions and retiree and dependent contribution rates are established and may be amended by the Commission.

Management Employee/Retiree. The Benefits funded by the Trust include certain post-employment medical, prescription drug, dental and vision benefits to management employees who have reached 20 years of service and are under age 60; and benefit eligibility changes from 20 to 10 years for retirees 60 years of age or older. The same coverage is provided to surviving spouses or domestic partners, and dependents of management retirees who retired on or after March 1, 2001. Surviving spouses or domestic partners of retirees who retired prior to July 1, 1998 may purchase medical coverage at the group rate and dependents are offered coverage under COBRA. Surviving spouses or domestic partners of retirees who retired between July 1, 1998 and March 1, 2001 may purchase medical and prescription coverage at the group rate and dependents are offered coverage under COBRA. Medicare Part B premiums are paid by the retiree, spouse or dependent if age 65 or over, or under age 65 and disabled.

Union Employee/Retiree. The Benefits also include certain post-employment medical and prescription drug benefits to union employees who have reached 20 years of service and are under age 60; and benefit eligibility changes from 20 to 10 years for employees 60 years of age or older. The same coverage is provided to spouses and dependents of eligible union retirees until the death of the retiree. Surviving spouses are required to contribute the full cost of coverage and dependents are offered coverage under COBRA.

The Trust began making payments to benefit providers for retiree claims and related administrative fees in October 2008. Prior to that time, the Commission made such payments. For the year ended May 31, 2012, claims and administration expenses totaled \$10.7 million.

Historically, the Commission has funded its post-employment benefit liabilities on a pay-as-you-go basis. In accordance with the pronouncements of the GASB applicable to the Commission, the Commission began reporting its unfunded actuarial accrued liabilities for OPEB and its annual OPEB cost each year commencing with its audited financial statements for the Fiscal Year ended May 31, 2008. The Commission's unfunded actuarial accrued liability (the "UAAL") as of March 1, 2012 was \$98.4

million, using a 7% discount rate and assuming that the annual required contribution would be invested in an irrevocable separate trust account. The Commission is required, pursuant to GASB rules, to have biennial actuarial valuations of its OPEB obligations. The last biennial actuarial valuation was as of March 1, 2012. The March 1, 2012 valuation's actuarial methods and assumptions included an amortization period of "10 years (closed)."

The Commission has adopted a Retiree Medical Trust Funding Policy, effective September 17, 2008, whereby the Commission anticipates approving an annual contribution to the Trust in the amount of the annual required contribution ("ARC") as determined by the Commission's actuary during the approval of its annual operating budget. The Commission's annual required contributions for Fiscal Year 2011-12 and Fiscal Year 2012-13, which includes the normal costs for the year, a component for the level dollar amortization of the total UAAL and a mid-year contribution interest component, were \$28.8 million and \$23.4 million, respectively. Actual contributions towards the ARC for Fiscal Year 2011-12 and Fiscal Year 2012-13 were \$54.4 million and \$56.3 million, respectively. The market value of the Trust's assets for the years ended May 31, 2012 and 2013 (unaudited) were \$143.4 million and \$217.0 million, respectively.

The Trust's financial statements are not included in the financial statements of the Commission. For additional information regarding the Benefits and the Trust, including funding status and actuarial methods and assumptions, see Note 10 to the Financial Statements.

### **Commission Compliance Department**

The Commission recently created a Compliance Department, with the primary mission of developing, managing, and executing comprehensive audit and investigation programs that examine and promote the adequacy and effectiveness of the Commission's internal control system. The Compliance Department includes the offices of Chief Compliance Officer, Assistant Chief Compliance Officer, and Inspector General, and the existing departments of Toll Revenue Audit, and Operations Review. As head of the department, the Chief Compliance Officer oversees all aspects of operations auditing, toll revenue auditing, and internal and external investigations.

### **Commission Office of Inspector General**

In 2009, an Office of Inspector General (the "OIG") was created within the Commission to maintain integrity and efficiency at the Commission, and to further maintain public confidence in the Commission. The OIG has conducted numerous investigations of fraud, waste, abuse and misconduct that have resulted in the termination of Commission employees and a vendor contract. When appropriate, the OIG refers cases to law enforcement authorities for possible criminal prosecution. In 2012, the OIG became a unit of the newly created Compliance Department.

# EXHIBIT I

## PENNSYLVANIA TURNPIKE COMMISSION

### PROPOSED FISCAL YEAR 2014 TEN YEAR CAPITAL PLAN – ANNUAL PROGRAM DETAIL

(IN MILLIONS OF \$)

FY 2014 TEN - YEAR CAPITAL PLAN SUMMARY (YOE)												
Program	Category	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	TOTALS
	Roadway/Safety	113,661,104	106,019,960	74,291,644	88,045,385	108,377,494	51,483,362	59,380,221	85,463,935	51,696,887	46,984,882	785,404,875
	Bridge,Tunnels & Misc Structure	94,270,013	129,362,850	127,573,225	102,661,702	94,148,812	97,205,131	163,047,841	128,952,275	153,089,164	143,655,528	1,233,966,540
	Total Reconstruction	215,927,446	222,734,410	295,676,013	269,177,998	288,128,004	344,315,993	270,162,690	321,575,120	330,208,957	346,182,421	2,904,089,052
	Interchanges	57,287,000	105,945,800	96,605,554	112,769,426	88,014,789	0	0	0	0	0	460,622,569
	AET Implementation Project	4,680,000	30,900,000	68,958,500	109,272,700	50,647,896	52,167,333	53,732,353	0	0	0	377,683,386
	Highway Miscellaneous	41,554,112	32,378,565	35,297,734	26,640,684	16,725,061	15,105,341	15,478,500	15,853,074	16,556,685	16,792,431	232,382,188
Highway	Result	527,379,675	627,341,585	698,402,670	708,567,896	646,042,057	560,277,160	561,801,606	551,844,403	551,551,693	553,615,262	5,986,824,008
Highway	Federally Reimbursed Funds	20,700,000	35,600,000	20,000,000	25,800,000	30,900,000	39,600,000	18,900,000	0	0	0	191,500,000
Highway	Highway Net	506,679,675	591,741,585	678,402,670	682,767,896	615,142,057	520,677,160	542,901,606	551,844,403	551,551,693	553,615,262	5,795,324,008
	Re-Capitalization	2,250,000	412,000	1,591,350	6,554,051	426,933	198,769	491,049	1,229,874	1,266,770	0	14,420,796
	Sustainment	14,396,875	13,287,000	6,895,850	8,741,816	13,182,101	13,569,130	13,986,226	14,146,210	12,505,702	11,742,959	122,453,869
	Compliance	1,900,000	1,802,500	1,856,575	3,278,181	3,376,526	3,477,822	3,582,157	3,689,622	3,800,310	3,914,320	30,678,013
	New Energy Initiative	1,898,983	824,000	848,720	1,038,091	1,069,233	1,101,310	1,134,350	1,168,380	1,203,432	1,239,535	11,526,033
	Facilities Design/Construction	21,487,000	17,662,844	24,764,653	17,334,270	19,424,370	20,179,441	20,996,871	20,543,755	21,207,265	21,605,314	205,205,784
FEMO	Result	41,932,858	33,988,344	35,957,148	36,946,409	37,479,163	38,526,473	40,190,653	40,777,841	39,983,480	38,502,127	384,284,495
	Fleet Equipment	13,664,494	14,420,000	14,534,330	15,188,905	15,644,572	17,968,748	18,507,811	19,309,020	19,888,290	20,876,371	170,002,541
Fleet Equipment	Result	13,664,494	14,420,000	14,534,330	15,188,905	15,644,572	17,968,748	18,507,811	19,309,020	19,888,290	20,876,371	170,002,541
	Functional Business Software	11,075,000	27,218,780	12,985,867	11,962,629	12,323,477	13,121,244	8,488,816	12,002,647	16,895,129	19,571,598	145,645,186
	Infrastructure HW / SW	8,015,000	7,488,100	7,192,902	6,780,371	6,533,579	3,982,106	4,101,570	4,027,837	4,148,672	4,273,132	56,543,269
	Toll Collection / Operations	11,282,895	1,081,500	0	0	0	0	0	0	0	0	12,364,395
Technology	Result	30,372,895	35,788,380	20,178,769	18,743,000	18,857,056	17,103,350	12,590,386	16,030,483	21,043,801	23,844,730	214,552,850
Total Capital Plan (Net)		592,649,922	675,938,309	749,072,918	753,646,210	687,122,849	594,275,731	614,190,455	627,961,747	632,467,265	636,838,489	6,564,163,894

## **APPENDIX B**

### **AUDITED 2013 AND 2012 FINANCIAL STATEMENTS**

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BASIC FINANCIAL STATEMENTS

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania  
Years Ended May 31, 2013 and 2012  
With Report of Independent Auditors

Zelenkofske Axelrod LLC

A Certified Public Accounting and Auditing Firm

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# Zelenkofske Axelrod LLC

## INDEPENDENT AUDITORS' REPORT

The Commissioners  
Pennsylvania Turnpike Commission  
Middletown, Pennsylvania

### **Report on Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Pennsylvania Turnpike Commission (the "Commission"), a component unit of the Commonwealth of Pennsylvania, as of and for the years ended May 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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 of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Harrisburg	Lehigh Valley	Philadelphia	Pittsburgh
830 Sir Thomas Court, Suite 100 Harrisburg, PA 17109 717.561.9200 Fax 717.561.9202	1101 West Hamilton Street Allentown, PA 17101-1043 610.871.5077 Fax 717.561.9202	2370 York Road, Suite A-5 Jamison, PA 18929 215.918.2277 Fax 215.918.2302	3800 McKnight E. Drive, Suite 3805 Pittsburgh, PA 15237 412.367.7102 Fax 412.367.7103

# Zelenkofske Axelrod LLC

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Commission, as of May 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Adoption of Accounting Pronouncements**

As described in Note 2 to the financial statements, in 2013 the Commission adopted the provisions of Governmental Accounting Standards Board's Statement No. 57, *OPEB Measurement by Agent Employers and Agent Multi-Employer Plans*, the provisions of Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, the provisions of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and the provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

## **Emphasis of Matter**

As more fully explained in Note 9, the Commission has committed to making significant payments under a Lease and Funding Agreement as required under the terms of Act 44. The Commission's ability to make such payments is dependent on its continuing capability to issue bonds to fund such payments and ultimately to raise tolls sufficient to repay its bonded debt. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress – postemployment healthcare benefits on pages 4 through 16 and page 74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of

# Zelenkofske Axelrod LLC

preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The section information on pages on 76 through 88 and the schedules of cost of services detail on page 89 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The section information and schedules of cost of services detail are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the section information and cost of services detail are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



ZELENKOFSCHE AXELROD LLC

Harrisburg, Pennsylvania  
August 29, 2013

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Management's Discussion and Analysis

May 31, 2013

The management of the Pennsylvania Turnpike Commission (hereinafter referred to as the "Commission") offers this management's discussion and analysis ("MD&A") overview and analysis of the Commission's financial activities for the year ended May 31, 2013, which should be read in conjunction with the Commission's basic financial statements. Certain amounts presented in the prior period have been reclassified to conform to the current period financial statement presentation.

**Overview of the Basic Financial Statements**

This MD&A 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 statements of net position present information on all of the Commission's assets and deferred outflows of resources, liabilities and deferred inflows of resources, with the differences being reported as net position. Over time, increases or decreases in net position serve as a relative indicator of the change in financial position of the Commission.

The statements of revenues, expenses, and changes in net position show the result of the Commission's total operations during the fiscal year and reflect both operating and nonoperating activities, capital contributions, and the special item. Changes in net position (increases or decreases) reflect the current fiscal period's operating impact upon the overall financial position of the Commission.

The statements of cash flows provide a detailed analysis of all sources and uses of cash. The direct method of cash flows is presented, along with a reconciliation of operating income to net cash provided by operating activities. The statements of cash flows are divided into the following activities sections – operating, investing, capital and related financing, and noncapital financing.

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.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Management's Discussion and Analysis (continued)

**Financial Analysis**

**Comparative Condensed Statements of Net Position**

	2013	May 31 2012 <i>(Restated)</i> <sup>1</sup> <i>(In Thousands)</i>	2011 <i>(Restated)</i> <sup>1</sup>
<b>Assets and deferred outflows of resources</b>			
Current assets	\$ 1,014,941	\$ 777,193	\$ 914,591
Long-term investments	728,103	898,014	1,182,695
Capital assets, net of accumulated depreciation	4,831,902	4,715,957	4,564,858
Other assets	158,471	125,814	101,103
Total assets	6,733,417	6,516,978	6,763,247
Deferred outflows of resources	117,369	198,518	67,155
Total assets and deferred outflows of resources	6,850,786	6,715,496	6,830,402
<b>Liabilities and deferred inflows of resources</b>			
Current liabilities	\$ 597,007	\$ 523,912	\$ 647,535
Debt, net of unamortized premium and unamortized refunding losses	8,526,198	7,776,161	7,330,665
Other noncurrent liabilities	203,766	284,892	178,315
Total liabilities	9,326,971	8,584,965	8,156,515
Deferred inflows of resources	141,440	108,503	78,393
Total liabilities and deferred inflows of resources	9,468,411	8,693,468	8,234,908
<b>Net position</b>			
Net investment in capital assets	653,109	967,760	1,049,972
Restricted for construction purposes	228,757	235,965	268,626
Restricted for debt service	49,655	37,611	39,433
Unrestricted	(3,549,146)	(3,219,308)	(2,762,537)
Total net position	\$ (2,617,625)	\$ (1,977,972)	\$ (1,404,506)

<sup>1</sup> Certain 2012 and 2011 amounts were restated as discussed in Note 6.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Management's Discussion and Analysis (continued)

**Financial Analysis (continued)**

The Commission's total net position decreased \$639.7 million and \$573.5 million for the fiscal years ended May 31, 2013 and 2012, respectively. The large decreases in net position in the fiscal years 2013 and 2012 were mainly the result of the \$450 million paid in both years to the Pennsylvania Department of Transportation (PennDOT), as required by Act 44 and the Lease and Funding Agreement (Funding Agreement) between the Commission and PennDOT, and interest expense on the debt issued to fund these payments. These expenses were recorded as nonoperating expenses. Please refer to Note 9, Commitments and Contingencies, of the financial statements and to the Events That Will Impact Financial Position section of this MD&A for additional information regarding Act 44 and the Funding Agreement between the Commission and PennDOT.

Restricted net position is restricted for construction projects and debt service as defined in Trust Indentures and applicable bond issue official statements.

The Commission's total assets and deferred outflows of resources increased by \$135.3 million in fiscal year 2013. This 2013 increase is mostly related to increases in cash and investments of \$69.1 million, capital assets of \$115.9 million, and the OPEB asset of \$29.3 million. These increases were partially offset by a decrease in deferred outflows of resources of \$81.1 million. The increase in capital assets is related to capital asset additions of \$479.1 million offset by \$311.7 million of depreciation expense. The increase in the OPEB asset is mostly related to the Commission's \$54.8 million contributions to the Retiree Medical Trust. The decrease in deferred outflows of resources is the result of change in values of the Commission's hedging derivatives. For additional information, see: Note 4, Cash and Investments; Note 5, Capital Assets, and the Capital Assets and Debt Administration section of this MD&A; Note 11, Postemployment Benefits; and Note 9, Commitments and Contingencies.

Total assets and deferred outflows of resources decreased by \$114.9 million in fiscal year 2012. This 2012 decrease is mostly related to a decrease in cash and investments of \$421.6 million offset by increases in capital assets and deferred outflows of resources of \$151.1 million and \$131.4 million, respectively. The decrease in cash and investments was mainly the result of the acquisition of capital assets and the payment of debt service. The increase in capital assets is related to capital asset additions of \$476.6 million offset by \$300.8 million of depreciation expense. See Note 5, Capital Assets, and the Capital Assets and Debt Administration section of this MD&A for additional information regarding the Commission's capital assets. The increase in deferred outflows of resources is the result of change in values of the Commission's hedging derivatives. See Note 9, Commitments and Contingencies for additional information regarding the Commission's hedging derivatives.



Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Management's Discussion and Analysis (continued)

**Financial Analysis (continued)**

Total liabilities and deferred inflows of resources increased by \$774.9 million in fiscal year 2013 and by \$458.6 million in fiscal year 2012. The fiscal year 2013 increase was mainly related to the issuance of senior debt to finance the costs of various capital expenditures set forth in the Commission's current ten-year plan and the issuance of subordinate debt to finance the costs of making payments to PennDOT in accordance with Act 44. See Note 7, Debt, for additional information regarding the new issuances of debt.

**Comparative Condensed Statements of Revenues, Expenses and Changes in Net Position**

	Year ended May 31		
	2013	2012	2011
		(Restated) <sup>1</sup>	(Restated) <sup>1</sup>
		(In Thousands)	
Operating:			
Operating revenues	\$ 831,636	\$ 803,939	\$ 758,648
Cost of services	(412,484)	(387,506)	(359,870)
Depreciation	(311,735)	(300,777)	(281,587)
Operating income	107,417	115,656	117,191
Nonoperating revenues (expenses):			
Investment earnings	30,048	28,052	24,566
Other nonoperating revenues	19,877	21,196	19,709
Act 44 payments to PennDOT	(450,000)	(450,000)	(450,000)
Capital assets transferred to PennDOT	-	(22,783)	-
Interest and bond expense	(393,822)	(367,994)	(333,275)
Nonoperating expenses, net	(793,897)	(791,529)	(739,000)
Loss before capital contributions and special item	(686,480)	(675,873)	(621,809)
Capital contributions	97,836	102,407	62,074
Discontinued project	(51,009)	-	-
Decrease in net position	\$ (639,653)	\$ (573,466)	\$ (559,735)

<sup>1</sup> Certain 2012 and 2011 amounts were restated as discussed in Note 6.

For fiscal years ended May 31, 2013, and 2012, operating and nonoperating revenues totaled \$881.6 million and \$853.2 million, respectively, while operating and nonoperating expenses totaled \$1,568.0 million and \$1,529.1 million, respectively.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Management's Discussion and Analysis (continued)

**Financial Analysis (continued)**

Total operating and nonoperating revenues for fiscal year 2013 were \$28.4 million or 3.3% higher than fiscal year 2012. This increase in revenue was mainly related to a \$30.7 million increase in fare revenues resulting from a January 2013 toll increase of 2% for E-ZPass customers and 10% for cash customers, the full year impact of the January 2012 toll increase of 10% for cash customers and reductions in January 2013 and January 2012 to the post-paid, commercial-volume-discount program. Total traffic volumes were flat in fiscal year 2013 compared to fiscal year 2012.

Total operating and nonoperating revenues for fiscal year 2012 were \$50.3 million or 6.3% higher than fiscal year 2011. The increase in total revenue was mainly related to a \$41.1 million increase in fare revenues resulting from a January 2012 toll increase of 10% for cash customers, the full year impact of the January 2011 toll increase of 3% for E-ZPass customers and 10% for cash customers and reductions in both January 2012 and January 2011 to the post-paid, commercial-volume-discount program. Total traffic volumes were flat in fiscal year 2012 compared to fiscal year 2011. Additionally, other operating revenues were \$4.2 million higher in fiscal year 2012 than in fiscal year 2011.

Total operating and nonoperating expenses for fiscal year 2013 were \$38.9 million higher than fiscal year 2012 primarily due to increases in: cost of services of \$25.0 million mainly related to increases in noncapitalizable contractor charges related to maintenance of the road, increase in employee benefits of \$5.9 million driven by the contribution to the State Employees' Retirement System, increase of \$5.1 million for materials and supplies which is primarily a winter materials increase of \$4.9 million; depreciation expense of \$11.0 related to an increase in assets being depreciated (see Note 5, Capital Assets); and interest and bond expenses of \$25.8 million related to the increase in debt (see Note 7, Debt).

For the fiscal year ended May 31, 2013, the Commission recorded an expense of \$51.0 million for the write-down of assets under construction related to design costs for the west leg of the PA Route 51 to Interstate Route 376 project. Due to the magnitude of the estimated costs of construction, the Commission believes it is unlikely to be economically feasible to complete this leg of the project. This expense was recorded as a special item in the statements of revenues, expenses and changes in net position.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Management's Discussion and Analysis (continued)

**Financial Analysis (continued)**

Total expenses for fiscal year 2012 were \$104.3 million higher than fiscal year 2011 primarily due to increases in: cost of services of \$27.6 million mainly related to increases in noncapitalizable contractor charges related to maintenance of the road, employee and retiree benefits, transponder expense and auto/general tort expense; depreciation expense of \$19.2 related to an increase in assets being depreciated (see Note 5, Capital Assets); interest and bond expenses of \$34.7 million related to the increase in debt (see Note 7, Debt); and capital assets transferred to PennDOT of \$22.8 million as described in Note 2, Summary of Significant Accounting Policies.

***Capital Assets and Debt Administration***

***Capital Assets***

Capital assets consist of land and intangible assets (right-of-way easements), buildings, improvements, equipment, infrastructure, and assets under construction. Infrastructure assets are typically items that are immovable such as highways, bridges, and tunnels. The Commission's investment in capital assets at May 31, 2013 amounted to \$9.6 billion of gross asset value with accumulated depreciation of \$4.8 billion, leaving a net book value of \$4.8 billion. The net book value of capital assets at May 31, 2012 was \$4.7 billion. Capital assets represented 70.5% and 70.2% of the Commission's total assets and deferred outflows of resources at May 31, 2013 and 2012, respectively.

Assets under construction at the end of fiscal year 2013 were \$661.6 million, which was \$202.9 million less than fiscal year 2012. In fiscal year 2013, \$550.9 million of constructed capital assets were completed which was \$157.6 million less than the \$708.5 million of constructed capital assets completed in fiscal year 2012. In addition to constructed capital assets, the Commission had capital asset additions of approximately \$80.1 million and \$54.0 million in fiscal years 2013 and 2012, respectively.

A top priority of the Commission is to entirely reconstruct the Turnpike roadways, completely removing all original pavement and sub-base and replacing it with an entirely new roadway, including all facets of the highway such as barriers and guide rails, noise and retention walls, and drainage systems. From about 1998 to date, the Commission has rebuilt approximately 102 miles of roadways and bridges and much of the reconstructed roadway has been widened to accommodate six lanes. An additional eight miles of roadway reconstruction has been initiated, and another 135 miles of reconstruction is currently in design. Also, the Commission completed 70 miles of roadway resurfacing during fiscal year 2013, helping to maintain a quality-riding surface with a Turnpike System wide median IRI (International Roughness Index) of 75 which is rated as good.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Management's Discussion and Analysis (continued)

**Financial Analysis (continued)**

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

*Capital Assets (continued)*

Construction of the new Monongahela River Bridge and replacement of the Lehigh River and Pohopoco Creek Bridges were completed. The Commission constructed five new bridges, completely replaced eleven aging original bridges with new bridges, rehabilitated another four bridges, and constructed five new retaining walls in 2012. Of the Commission's bridges, 7.4% are rated structurally deficient which is below the national average of 11%. Sixty-one of the 64 bridges currently rated structurally deficient are either in construction or design for rehabilitation.

Facility projects continue to focus on environmental and safety compliance, and on the maintenance and repair of existing buildings including HVAC, electrical and plumbing systems. The Commission completed construction on the Searights Maintenance Facility in June 2012 and completed construction on the new District 4 Trades Warehouse in December 2012. Construction of the new Somerset Maintenance Facility is underway, and the advertisement for the new Plymouth Meeting Maintenance Facility is anticipated in September 2013. New Maintenance Facilities are under design currently with the Bowmansville Maintenance Facility in the master plan phase. Equipment purchases and regular maintenance of existing equipment is ongoing to ensure the Commission's fleet of dump trucks, plows, and other equipment is of sufficient number and functioning properly so that maintenance staff will be adequately equipped to maintain the roadway.

With the completion of Phase 2 for the Uniontown to Brownsville project, the Mon/Fayette Expressway is completed and open to traffic from the Pennsylvania/West Virginia line to PA 51 in Jefferson Hills Borough, a distance of 54 miles. Phase 2 of the Uniontown to Brownsville project, a seven mile section, opened to traffic on July 16, 2012. The preliminary design for the remainder of the Mon/Fayette Expressway project, extending from PA Route 51 to Interstate Route 376 in Pittsburgh, has been completed. Additional funding is required to construct this section. Due to the magnitude of the estimated costs of construction, the Commission believes it is unlikely to be economically feasible to complete the west leg of this project.

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

**Financial Analysis (continued)**

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

*Capital Assets (continued)*

The Southern Beltway is a series of three independent projects that are planned to be constructed from the Mon/Fayette Expressway near Finleyville as part of a beltway south of Pittsburgh to Pennsylvania Route 60 (PA 60) at the Pittsburgh International Airport. One project constructed as part of the Southern Beltway, a six-mile section of toll road in Allegheny County that connects PA 60 to U.S. Route 22 (U.S. 22), is in operation. The other two projects are in the design phase. The project from Interstate 79 (I-79) to Mon/Fayette Expressway has completed the environmental phase and is inactive until additional resources are found. The project from U.S. 22 to I-79 is in final design, and acquisition of the right-of-way is underway. Additional funding is needed to complete the design and construction of the project connecting U.S. 22 to Interstate 79.

The Commission has no legal obligation to complete the unfinished portions of the Mon/Fayette Expressway and Southern beltway projects at this time.

The Interstate 276 (I-276) section of the PA Turnpike and Interstate 95 (I-95) presently cross in Bucks County and no direct connection of these two roads exist. This project involves the construction of a direct interchange between I-276 and I-95 where the ramps carrying the I-95 designation would be higher speed ramps. The project also includes tolling modifications and reconstruction and widening of the interstates.

The first phase of the Interchange Project includes preparatory work and construction of a portion of the interchange between I-95 and the Turnpike Mainline, including northbound I-95 to the eastbound Turnpike Mainline and southbound I-95 to the westbound Turnpike Mainline. This phase includes construction of a new mainline toll plaza and an AET plaza westbound. Construction has commenced and is expected to continue through 2018. The second phase will include the completion of the reconstruction and widening of the remaining interchange connectors. The third phase will be the construction of an additional bridge over the Delaware River.

The above paragraphs describe the changes in capital assets occurring during the fiscal years ended May 31, 2013 and 2012. Please refer to the capital assets section in the notes to the financial statements (Note 5) for more detailed capital asset schedules.

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

**Financial Analysis (continued)**

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

***Debt Administration***

In April 2013, the Commission issued \$92,465,000 2013 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds at a fixed rate with a maturity date of December 1, 2043. The 2013 A Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In April 2013, the Commission issued \$71,701,729 2013 Series A Subordinate Bonds at a fixed rate with a maturity date of December 1, 2043. The 2013 Series A Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In January 2013, the Commission issued \$176,075,000 2013 Series A Senior Bonds at a variable rate with a maturity date of December 1, 2018. The 2013 Series A Senior bonds were issued primarily to finance the cost of various capital expenditures set forth in the Commission's current ten-year capital plan including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and/or the rehabilitation of certain interchanges and for issuing the 2013 A bonds.

In November 2012, the Commission issued \$70,060,000 2012 Series B Senior Bonds at a variable rate with a maturity date of December 1, 2016. The 2012 Series B Senior Bonds were issued primarily to current refund the \$52,070,000 December 1, 2012 maturity of the Commission's 2009 Series C Variable Rate Turnpike Revenue Bonds and the \$17,455,000 December 1, 2012 maturity of the Commission's 2011 Series D Variable Rate Turnpike Revenue Bonds.

In October 2012, the Commission issued \$92,780,000 2012 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds at a fixed rate with a maturity date of December 1, 2042. The 2012 Series B Motor License Fund-Enhanced Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In October 2012, the Commission issued \$121,065,000 2012 Series B Subordinate Bonds at a fixed rate with a maturity date of December 1, 2042. The 2012 Series B Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

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

**Financial Analysis (continued)**

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

***Debt Administration (continued)***

In July 2012, the Commission issued \$200,215,000 2012 Series A Senior Bonds at a fixed rate with a maturity date of December 1, 2042. The 2012 Series A Senior Bonds were issued for the purpose of financing the costs of various capital expenditures set forth in the Commission's current ten-year plan including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and/or the rehabilitation of certain interchanges.

In April 2012, the Commission issued \$94,935,000 2012 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds at a fixed rate with a maturity date of December 1, 2042. The 2012 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In April 2012, the Commission issued \$123,545,000 2012 Series A Subordinate Bonds at a fixed rate with a maturity date of December 1, 2042. The 2012 Series A Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In November 2011, the Commission issued \$110,080,000 2011 Series E Senior Bonds at a fixed rate with a maturity date of December 1, 2030. The 2011 Series E Senior Bonds were issued primarily to current refund the 2001 Series R Senior Bonds.

In November 2011, the Commission issued \$52,365,000 2011 Series D Senior Bonds at a variable rate with a maturity date of December 1, 2014. The 2011 Series D Senior Bonds were issued primarily to partially refund the 2009 Series C Senior Bonds.

In October 2011, the Commission issued \$98,910,000 2011 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds at a fixed rate with a maturity date of December 1, 2041. The 2011 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In October 2011, the Commission issued \$126,740,000 2011 Series B Subordinate Bonds at fixed rate with a maturity date of December 1, 2041. The 2011 Series B Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

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

**Financial Analysis (continued)**

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

***Debt Administration (continued)***

The above paragraphs describe debt activity occurring during the fiscal years ended May 31, 2013 and 2012. Please refer to the debt and commitments and contingencies sections in the notes to the financial statements (Notes 7 and 9) for more detailed schedules and descriptions of long-term debt and swap activity.

**Events That Will Impact Financial Position**

On July 18, 2007, Act 44 was enacted, creating a “public-public partnership” between the Commission and PennDOT to provide funding for roads, bridges and transit throughout the Commonwealth. Subsequently, in order to effectuate the provisions of Act 44 requiring the Commission to make substantial annual payments to PennDOT, the Commission and PennDOT entered into a Lease and Funding Agreement (the Funding Agreement), incorporating many of the terms of Act 44. The term of the Funding Agreement is fifty (50) years from October 14, 2007, its effective date.

The Funding Agreement requires the Commission to make scheduled annual payments to PennDOT, payable in equal quarterly installments, to be used to provide funding for roads, bridges and transit in the Commonwealth. The Commission's obligation to pay the annual debt service on any Special Revenue Bonds on a timely basis is part of its payment obligation under the Funding Agreement. The Funding Agreement also granted the Commission the option to lease the portion of Interstate I-80 located in the Commonwealth from PennDOT upon the approval of the Federal Highway Administration (FHWA) of the conversion of such portion into a toll road (the Conversion). The Funding Agreement granted the unilateral option to the Commission to effectuate the Conversion at any time before the third anniversary of the Funding Agreement (the Conversion Period), with the option to extend the Conversion Period for up to three one-year periods.



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

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

On October 13, 2007, the Commission and PennDOT submitted a joint application to the FHWA for approval of the Conversion. The FHWA ultimately denied the application on April 6, 2010. Neither the Commission nor PennDOT appealed the FHWA's decision, nor did the Commission extend the Conversion Period during the notice period under the Funding Agreement or give notice of Conversion. Therefore, the Conversion Period lapsed on October 14, 2010 without the Commission effectuating Conversion or having the ability to do so in the future. The Funding Agreement provides that the Commission's aggregate annual payments to PennDOT are limited to \$450 million annually upon lapse of the Conversion option and such payment amount commenced with the 2010-2011 Fiscal Year. Under existing law, all legal, financial and operational responsibility for I-80 remains with PennDOT.

In accordance with Act 44, the Commission is required to provide a financial plan to the Secretary of the Budget of the Commonwealth no later than June 1 of each year. The financial plan must describe the Commission's proposed operating and capital expenditures, borrowings, liquidity and other financial management covenants and policies, estimated toll rates and all other revenue and expenditures for the ensuing Fiscal Year. The financial plan must also show that the operation of the Turnpike System can reasonably be anticipated to result in the Commission's ability to meet its payment obligations to PennDOT pursuant to the Funding Agreement and Act 44. It does not, however, address the funding needs for the Mon/Fayette or Southern Beltway projects.

On May 31, 2013, the Commission submitted its financial plan for Fiscal Year 2013-14 (the Financial Plan). The Financial Plan incorporates the Commission's Capital Plan for Fiscal Year 2013-14 (the Proposed Capital Plan), which provides for \$6.56 billion in capital spending over the period from Fiscal Year 2013-14 through the Fiscal Year 2022-23. The Proposed Capital Plan allows the Commission to accelerate a number of capital improvements and to pursue new initiatives to maintain and improve the Turnpike System. The Financial Plan indicates that in Fiscal Year 2012-13 it was able to meet all of its financial covenants and Act 44 obligations and was able to progress with its Capital Plan. Given the slow recovery of the economy, the Commission plans to continue the cost containment and efficiency measures it implemented within the past few years. These measures, together with future toll increases, are expected to allow the Commission to meet its financial covenants, Act 44 obligations, and capital needs during Fiscal Year 2013-14.

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

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

The Financial Plan concludes that the Commission will continue to meet all of its indenture covenants and all of its other obligations through the 2056-57 Fiscal Year. However, as a forward-looking report, the Financial Plan makes certain assumptions, including future toll increases, to reach its conclusion that the financial covenants, Act 44 obligations and capital needs will be met beyond Fiscal Year 2013-14. Key among these assumptions is the Commission's ability to raise all tolls throughout the Turnpike System. The Financial Plan reflects the expected full year effects of the January 2013 toll increase and the expected partial year impacts of the planned January 2014 toll increase. The Financial Plan does not assume any tolling of I-80 and assumes the \$450 million reduced level of funding obligations required by Act 44. No assurances can be made by the Commission with respect to the assumptions made or conclusions reached in the Financial Plan. A complete copy of the Financial Plan is available on the Commission's website.

The above paragraphs provide a brief overview of Act 44 and its requirements. Please refer to the commitments and contingencies section in the notes to the financial statements (Note 9) for additional information regarding the Commission's commitments under the Funding Agreement.

Furthermore, legislation may be introduced that could affect the Commission and its obligations pursuant to Act 44. However, the Commission cannot predict what other legislation may be considered by the General Assembly during the 2013-2014 or future legislative sessions or if any other proposals or initiatives may lead to the adoption of legislation that may affect the Commission.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Statements of Net Position

	May 31	
	2013	2012
	(Restated) <sup>1</sup>	
	(In Thousands)	
Assets and deferred outflows of resources		
Current assets:		
Cash and cash equivalents	\$ 130,010	\$ 100,804
Short-term investments	47,952	25,545
Accounts receivable	39,149	36,254
Accrued interest receivable	1,663	2,252
Inventories	16,871	19,576
Restricted current assets:		
Cash and cash equivalents	528,427	351,584
Short-term investments	241,914	231,363
Accounts receivable	5,400	5,959
Accrued interest receivable	3,555	3,856
Total current assets	1,014,941	777,193
Noncurrent assets:		
Long-term investments:		
Long-term investments unrestricted	197,127	265,732
Long-term investments restricted	530,976	632,282
Total long-term investments	728,103	898,014
Capital assets not being depreciated:		
Land and intangibles	271,310	256,175
Assets under construction	661,613	864,474
Capital assets being depreciated:		
Buildings	893,705	832,592
Improvements other than buildings	112,632	95,198
Equipment	549,578	531,210
Infrastructure	7,172,878	6,704,803
Total capital assets before accumulated depreciation	9,661,716	9,284,452
Less accumulated depreciation	4,829,814	4,568,495
Total capital assets after accumulated depreciation	4,831,902	4,715,957
Other assets:		
Deferred issuance costs	73,616	71,402
OPEB asset	58,127	28,871
Other assets	26,728	25,541
Total other assets	158,471	125,814
Total noncurrent assets	5,718,476	5,739,785
Total assets	6,733,417	6,516,978
Deferred outflows of resources	117,369	198,518
Total assets and deferred outflows of resources	\$ 6,850,786	\$ 6,715,496

<sup>1</sup> Certain 2012 amounts were restated as discussed in Note 6.

*The notes to the financial statements are an integral part of this statement.*

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Statements of Net Position (continued)

	May 31	
	2013	2012
	(Restated) <sup>1</sup>	
	(In Thousands)	
<b>Liabilities and deferred inflows of resources</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 350,017	\$ 355,803
Current portion of debt	198,800	127,275
Unearned income	48,190	40,834
Total current liabilities	597,007	523,912
Noncurrent liabilities:		
Debt, less current portion, net of unamortized premium of \$178,859 and \$117,576 in 2013 and 2012, respectively, and net of unamortized refunding loss of \$152,171 and \$166,511 in 2013 and 2012, respectively	8,526,198	7,776,161
Other noncurrent liabilities	203,766	284,892
Total noncurrent liabilities	8,729,964	8,061,053
Total liabilities	9,326,971	8,584,965
Deferred inflows of resources	141,440	108,503
Total liabilities and deferred inflows of resources	9,468,411	8,693,468
<b>Net position</b>		
Net investment in capital assets	653,109	967,760
Restricted for construction purposes	228,757	235,965
Restricted for debt service	49,655	37,611
Unrestricted	(3,549,146)	(3,219,308)
Total net position	\$ (2,617,625)	\$ (1,977,972)

<sup>1</sup> Certain 2012 amounts were restated as discussed in Note 6.

*The notes to the financial statements are an integral part of this statement.*

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Statements of Revenues, Expenses and Changes in Net Position

	Year Ended May 31 2013	2012 <i>(Restated)</i> <sup>1</sup>
	<i>(In Thousands)</i>	
Operating revenues:		
Fares – net of discounts of \$10,198 and \$16,981 for the years ended May 31, 2013 and 2012, respectively	\$ 811,542	\$ 780,798
Other	20,094	23,141
Total operating revenues	<u>831,636</u>	<u>803,939</u>
Operating expenses:		
Cost of services	412,484	387,506
Depreciation	311,735	300,777
Total operating expenses	<u>724,219</u>	<u>688,283</u>
Operating income	107,417	115,656
Nonoperating revenues (expenses):		
Investment earnings	30,048	28,052
Other nonoperating revenues	19,877	21,196
Act 44 payments to PennDOT	(450,000)	(450,000)
Capital assets transferred to PennDOT	-	(22,783)
Interest and bond expense	(393,822)	(367,994)
Nonoperating expenses, net	<u>(793,897)</u>	<u>(791,529)</u>
Loss before capital contributions and special item	(686,480)	(675,873)
Capital contributions	97,836	102,407
Discontinued project	(51,009)	-
Decrease in net position	<u>(639,653)</u>	<u>(573,466)</u>
Net position at beginning of year	(1,977,972)	(1,404,506)
Net position at end of year	<u>\$ (2,617,625)</u>	<u>\$ (1,977,972)</u>

<sup>1</sup> Certain 2012 amounts were restated as discussed in Note 6.

*The notes to the financial statements are an integral part of this statement.*

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Statements of Cash Flows

	Year Ended May 31	
	2013	2012
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Cash received from customer tolls and deposits	\$ 829,291	\$ 799,163
Cash payments for goods and services	(253,179)	(261,579)
Cash payments to employees	(144,292)	(139,717)
Cash received from other operating activities	7,706	9,649
<b>Net cash provided by operating activities</b>	<b>439,526</b>	<b>407,516</b>
<b>Investing activities</b>		
Proceeds from sales and maturities of investments	1,631,813	2,498,230
Interest received on investments	25,232	29,328
Purchases of investments	(1,466,354)	(2,188,178)
<b>Net cash provided by investing activities</b>	<b>190,691</b>	<b>339,380</b>
<b>Capital and related financing activities</b>		
Capital grants received	7,240	9,183
Cash proceeds from motor license grant	28,000	28,000
Cash proceeds from oil company franchise tax	60,285	61,897
Construction and acquisition of capital assets	(507,650)	(456,849)
Proceeds from sale of capital assets	1,765	862
Payments for bond and swap expenses	(1,540)	(595)
Payments for debt refundings	(69,525)	(345,745)
Payments for debt maturities	(41,890)	(62,030)
Interest paid on debt	(182,611)	(182,962)
Interest subsidy from Build America Bonds	19,181	22,387
Proceeds from debt issuances	473,667	167,906
<b>Net cash used for capital and related financing activities</b>	<b>(213,078)</b>	<b>(757,946)</b>
<b>Noncapital financing activities</b>		
Cash payments to PennDOT	(450,000)	(450,000)
Payments for bond and swap expenses	(1,032)	(1,180)
Payments for debt maturities	(15,860)	(12,245)
Interest paid on debt	(160,512)	(137,788)
Proceeds from debt issuances	416,314	468,106
<b>Net cash used for noncapital financing activities</b>	<b>(211,090)</b>	<b>(133,107)</b>
<b>Increase (Decrease) in cash and cash equivalents</b>	<b>206,049</b>	<b>(144,157)</b>
Cash and cash equivalents at beginning of year	452,388	596,545
Cash and cash equivalents at end of year	\$ 658,437	\$ 452,388

*The notes to the financial statements are an integral part of this statement.*

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Statements of Cash Flows (continued)

	<b>Year Ended May 31</b>	
	<b>2013</b>	<b>2012</b>
	<i>(In Thousands)</i>	
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 107,417	\$ 115,656
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	311,735	300,777
Change in operating assets and liabilities:		
Accounts receivable	(2,370)	(2,975)
Inventories	2,705	3,973
Other assets	(28,061)	(25,328)
Accounts payable and accrued liabilities	41,810	9,923
Other noncurrent liabilities	6,290	5,490
Net cash provided by operating activities	<u>\$ 439,526</u>	<u>\$ 407,516</u>
<b>Reconciliation of cash and cash equivalents to the statements of net position:</b>		
Cash and cash equivalents	\$ 130,010	\$ 100,804
Restricted cash and cash equivalents	528,427	351,584
Total cash and cash equivalents	<u>\$ 658,437</u>	<u>\$ 452,388</u>

*The notes to the financial statements are an integral part of this statement.*

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Statements of Cash Flows (continued)

**Noncash Activities**

The Commission recorded a net decrease of \$5.5 million and \$1.9 million in the fair value of its investments for the years ended May 31, 2013 and 2012, respectively.

The Commission recorded \$8.2 million and \$6.0 million for the amortization of bond premiums for the years ended May 31, 2013 and 2012, respectively.

The Commission recorded \$25.6 million and \$23.0 million in expenses for amortization of deferred refunding losses, amortization of bond issuance costs and amortization of swap agreement costs for the years ended May 31, 2013 and 2012, respectively.

The Commission recorded an interest expense reduction of \$11.7 million and \$8.8 million for the years ended May 31, 2013 and 2012, respectively, related to GASB 53 entries.

The Commission has entered into contracts with the operators of service plaza restaurants and service stations to totally reconstruct several service plazas. The service plaza operators provide the capital for the reconstruction in exchange for lower rental rates. The Commission implemented GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements in fiscal year 2013 (including restatements of fiscal year 2012). The Commission recognized capital contribution revenues of \$3.4 million and \$1.8 million related to these arrangements for the years ended May 31, 2013 and 2012, respectively. See Note 6 for further discussion on the service plazas.

In fiscal year 2012, the Commission wrote down the value of its transponder inventory by \$4.6 million to reflect lower market costs.

The Commission and PennDOT entered into an agreement regarding ownership of overhead bridges that carry state roads. Per the agreement, once the Commission replaces these overhead bridges, and after final inspections and supplemental agreements are signed by both parties, ownership and maintenance responsibilities of the bridges are transferred from the Commission to PennDOT. The Commission transferred assets with a net book value of \$22.8 million to PennDOT during the fiscal year ended May 31, 2012. The Commission did not transfer any assets to PennDOT during the fiscal year ended May 31, 2013.

*The notes to the financial statements are an integral part of this statement.*



Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements

May 31, 2013

**1. Financial Reporting Entity**

The Pennsylvania Turnpike Commission (the 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 (the Commonwealth).

In evaluating how to define the Commission for financial reporting purposes, management has considered all potential component units in accordance with Governmental Accounting Standards Board (GASB) Statements No. 14, *The Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14*. GASB Statement No. 14 defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. GASB Statement No. 39 provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. The Commission believes it has no component units based on its review of GASB Statements No. 14 and No. 39.

The Commission consists of five members, one of whom is the Secretary of Transportation. The others are appointed by the Governor with the approval of a majority of the Senate.

**2. Summary of Significant Accounting Policies**

The financial statements of the Pennsylvania Turnpike Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting policies are described below:

**Basis of Accounting**

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

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Reclassifications**

Certain amounts presented in the prior period have been reclassified to conform to the current period financial statements presentation.

**Cash Equivalents**

For purposes of the statements of cash flows, the Commission considers all highly liquid debt investment securities that mature within three months of acquisition to be cash equivalents.

**Investments**

Investments are stated at fair value with the exception of certain nonparticipating contracts such as repurchase agreements and other agreements structured as repurchase agreements that are reported at cost, which does not materially differ from fair value. Fair values are based on quoted market prices.

**Capital Assets**

Capital assets consist of land and intangible assets (right-of-way easements), buildings, improvements, equipment, infrastructure, and assets under construction. Infrastructure assets are typically items that are immovable such as highways, bridges, and tunnels. Capital assets are stated at cost. Donated capital assets are valued at their estimated fair value on the date received. Interest is capitalized based on average construction costs and the average bond interest rate, less interest earned on invested construction funds. Acquisitions of capital assets valued at \$15,000 or greater are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Intangible assets have an indefinite life and, thus, are not depreciated. The following lives are used:

Buildings	10 – 45 years
Improvements other than buildings	15 – 20 years
Equipment	3 – 40 years
Infrastructure	10 – 50 years

**Inventories**

Inventories are valued at the lower of average cost (determined on a first-in, first-out method) or market. In fiscal year 2012, the Commission wrote down the value of its transponder inventory by \$4.6 million to reflect lower market costs.

Pennsylvania Turnpike Commission  
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Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Debt Premium/Discount and Issuance Costs**

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

**Unearned Income**

Unearned income is primarily related to E-ZPass customer deposits and microwave tower leases. E-ZPass customers of the Commission are required to deposit funds in advance of anticipated travel. Since this money is collected prior to the customers' travel and revenue recognition, it is recorded as unearned income. The Commission had unearned income of \$48.2 million and \$40.8 million at May 31, 2013 and 2012, respectively.

**Net Position**

GASB Statement No. 63 requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

*Net Investment in Capital Assets* – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included.

*Restricted* – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The restrictions would be imposed by external parties including creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

*Unrestricted* – This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Operating Revenues**

Revenues associated with operations of the Turnpike System are considered operating revenues. The principal operating revenues of the Commission are fare revenues from customers. Other operating revenues include: service station, restaurant, property and other rental income as well as electronic toll collection and violation enforcement fees related to the E-ZPass program. Also included is revenue from various sponsorship agreements.

*Fare Revenues*

Fare revenues are recognized when vehicles exit the Turnpike System. As of May 31, 2013 and 2012, approximately 68.3% and 66.8%, respectively, of the fare revenues were realized through electronic toll collection; the remainder was realized through cash collection or a credit card program for military and Class 9 vehicles.

**Operating Expenses**

Operating expenses relate directly to operating and maintaining the Turnpike System. 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: wages and salaries, benefits, utilities, fuels, professional fees and services, PA State Police services, and 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 needed.

**Nonoperating Revenues (Expenses)**

Nonoperating revenues include: investment earnings and other miscellaneous revenues not associated with the operations of the Turnpike System. Nonoperating expenses include: Act 44 payments to PennDOT, capital assets transferred to PennDOT, interest and bond expenses, and other miscellaneous expenses not associated with the operations of the Turnpike System.

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Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Nonoperating Revenues (Expenses) (continued)**

*Act 44 Payments to PennDOT*

The Commission and PennDOT entered into a Lease and Funding Agreement as required under the terms of Act 44. See Note 9 for more information regarding this Lease and Funding Agreement.

*Capital Assets Transferred to PennDOT*

The Commission and PennDOT entered into an agreement regarding ownership of overhead bridges that carry state roads. Per the agreement, once the Commission replaces these overhead bridges, and after final inspections and supplemental agreements are signed by both parties, ownership and maintenance responsibilities of the bridges are transferred from the Commission to PennDOT. The Commission transferred assets with a net book value of \$22.8 million to PennDOT during the fiscal year ended May 31, 2012. The Commission did not transfer any of these assets to PennDOT during the fiscal year ended May 31, 2013.

**Capital Contributions**

Capital contributions include: Oil Company Franchise Tax revenues, Motor License Registration Fee revenues, grants from other governments for reimbursement of capital costs for various highway construction projects, capital assets received from other third parties and amortization of deferred inflows of resources for service concession agreements.

*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 totaled \$59.6 million and \$63.2 million for the fiscal years ended May 31, 2013 and 2012, respectively. These revenues are kept in a separate fund as required by the applicable bond indenture.

*Motor License Registration Fee Revenues*

The Commission received \$28.0 million in grants during each of the fiscal years ended May 31, 2013 and 2012 from the Commonwealth's Motor License Fund. The Commission has elected to account for this grant in a separate fund.

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Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Capital Contributions (continued)**

*Reimbursements from Other Governments*

The Commission receives grants from other governments for reimbursement of costs for various highway construction projects. During the fiscal years ended May 31, 2013 and 2012, the Commission recognized \$6.8 million and \$9.4 million, respectively, as capital contributions from the Federal government.

*Other Capital Contributions*

The Commission has entered into long-term agreements with the operators of service plaza restaurants and service stations to totally reconstruct the service plazas. The service plaza operators provide the capital for the reconstruction in exchange for lower rental rates. The Commission implemented GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* in fiscal year 2013. The Commission recognized capital contribution revenues of \$3.4 million and \$1.8 million, as restated, related to these agreements for the years ended May 31, 2013 and 2012, respectively. See Note 6 for further discussion on the service plazas.

**Adoption of Accounting Pronouncements**

In December 2009, the GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The Commission adopted the remaining provisions of Statement No. 57 during the fiscal year ended May 31, 2013. The adoption of this statement had no impact on the Commission's financial statements for fiscal years ending May 31, 2013 and 2012.

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The Commission adopted this statement for its fiscal year ended May 31, 2013 financial statements. See Note 6 for further discussion including the restatement of prior year amounts, as required.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The adoption of this statement had no significant impact on the Commission's financial statements for fiscal years ending May 31, 2013 and 2012.

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Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Adoption of New Accounting Pronouncements (continued)**

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Commission adopted this statement for its fiscal year ended May 31, 2013 financial statements. See the basic financial statements and the net position section earlier in this note for further discussion.

**Pending Changes in Accounting Principles**

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The Commission is required to adopt Statement No. 61 for its fiscal year ended May 31, 2014 financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Commission is required to adopt Statement No. 65 for its fiscal year ended May 31, 2014.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The Commission is required to adopt Statement No. 66 for its fiscal year ended May 31, 2014.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The Commission is required to adopt Statement No. 67 for its fiscal year ended May 31, 2015.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The Commission is required to adopt Statement No. 68 for its fiscal year ended May 31, 2016.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The Commission is required to adopt Statement No. 69 for its fiscal year ended May 31, 2015.

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Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Pending Changes in Accounting Principles (continued)**

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The Commission is required to adopt Statement No. 70 for its fiscal year ended May 31, 2015.

The Commission has not yet completed the various analyses required to estimate the financial statement impact of these new pronouncements.

**3. Indenture Requirements and Restrictions**

The Commission's debt has been issued under the provisions of four separate Trust Indentures (collectively referred to as Indentures):

- A Senior Turnpike Toll Revenue Trust Indenture dated July 1, 1986 which was amended and restated as of March 1, 2011, as supplemented, between the Commission and the Trustee, U.S. Bank Corp., successor to Wachovia Bank;
- An Oil Franchise Tax Trust Indenture dated August 1, 1998, as supplemented, between the Commission and the Trustee, Bank of New York Mellon Trust Company, N.A., successor to National City Bank;
- A Registration Fee Revenue Trust Indenture dated July 1, 2005 between the Commission and the Trustee, Bank of New York Mellon Trust Company, N.A., successor to National City Bank; and
- A Subordinate Turnpike Toll Revenue Trust Indenture dated April 1, 2008, as supplemented, between the Commission and the Trustee, Wells Fargo Bank, N.A., successor to TD Bank, N.A.

Accordingly, certain activities of the Commission are restricted by these Indentures.



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Notes to Financial Statements (continued)

**4. Cash and Investments**

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

Cash and Cash Equivalent and Investment Types	May 31	
	2013	2012
	<i>(In Thousands)</i>	
U.S. Treasuries	\$ 105,795	\$ 28,426
GNMA mortgages	12,327	15,245
Government agency securities	183,474	258,724
Municipal bonds	373,181	376,526
Corporate obligations	306,667	453,432
Total investment securities	981,444	1,132,353
Investment derivatives – basis swaps	36,525	22,569
Cash and cash equivalents	658,437	452,388
Total cash and cash equivalents and investments	\$ 1,676,406	\$ 1,607,310

**Cash and Cash Equivalents**

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.

	Total Bank Balance	Total Book Balance
	<i>(In Thousands)</i>	
<b>May 31, 2013</b>		
Cash and cash equivalents	\$ 657,123	\$ 658,437
<b>May 31, 2012</b>		
Cash and cash equivalents	\$ 460,918	\$ 452,388

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Notes to Financial Statements (continued)

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

**Cash Equivalents and Investment Securities**

The Indentures (as listed in Note 3) permit investments in obligations of, or guaranteed by, the United States of America, its agencies, and its 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.

Debt 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 defines guidelines and operational factors governing the investment of financial assets. The policy generally has the same restrictions regarding permitted investments as the Indentures. Permitted investments include:

- U.S. Treasury Bills, Notes, Bonds, Strips;
- Time Deposits issued by a banking association organized and doing business under the laws of the United States of America or of any state that may have a combined capital and surplus of at least \$50,000,000;
- Certificates of Deposit that are fully collateralized and issued by a bank, savings and loan or trust company organized under the laws of the United States or any state thereof;
- Investment Agreements with a bank, a bank holding company or a financial institution that has outstanding long-term indebtedness rated “AA” or better by Moody’s and S&P;
- Obligations of any federal agencies which obligations are backed by the full faith and credit of the United States of America;

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Notes to Financial Statements (continued)

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

**Cash Equivalents and Investment Securities (continued)**

- Senior debt obligations rated a minimum “AA” by S&P and “Aa2” by Moody’s and issued by government-sponsored enterprises which include Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation; and Federal National Mortgage Association;
- Mortgage-backed securities issued by an approved Federal agency and collateralized mortgage obligations so long as such securities are rated a minimum of “Aa2” by Moody’s and “AA” by S&P’s;
- Debt obligations of any state or local government entity with securities rated in the “Aa/AA” category;
- Commercial paper rated not less than “A-1/P-1/F-1”, corporate bonds rated “Aa3/AA-” or better, and asset-backed securities rated “AAA”;
- Repurchase agreements with banks or primary government dealers reporting to the Federal Reserve Bank of New York, collateralized by investments with a minimum 102% valuation in securities of U.S. Treasury bills, notes, bonds, strips, or obligations of any of federal agencies or senior debt obligations described above; and
- Share or Certificates in any short-term investment fund investing not less than 90% of its assets in obligations of U.S. treasury bills, notes, bonds, strips or time deposits.

All investment ratings shall be based on security ratings at the time of purchase. The portfolio’s average credit quality should be rated “Aa3/AA-” or better by Moody’s/S&P. Investments are generally purchased with the intent of holding to maturity with flexibility to restructure and rebalance portfolio holdings to manage risk and benefit from market opportunities.

The investment policy imposes the following additional limitations:

- Investments in any single Federal agency, not carrying the full faith and credit of the U.S. Government, are limited to 35% of the portfolio.
- Investments in certificates of deposit and investment agreements are limited to 30% of the portfolio.
- Combined exposure to commercial paper, corporate bonds, and asset-backed securities, in aggregate, is limited to 35% of the total portfolio.

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Notes to Financial Statements (continued)

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

**Cash Equivalents and Investment Securities (continued)**

- 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.

The Commission's exposure to credit risk for investment securities as of May 31, 2013 is as follows:

Investment Type	Quality Rating					Total
	AAA	AA	A	A-1	Below A	
(In Thousands)						
Government agency securities	\$ 183,474	\$ -	\$ -	\$ -	\$ -	\$ 183,474
Municipal bonds	21,920	229,711	31,155	90,395	-	373,181
Corporate obligations	64,213	190,820	7,497	42,099	2,038	306,667
	\$ 269,607	\$ 420,531	\$ 38,652	\$ 132,494	\$ 2,038	\$ 863,322

Investments guaranteed by the full faith of the U.S. Government, such as U.S. Treasuries and GNMA mortgages, are not considered to have credit risk and do not require disclosure of credit quality.

**Concentration of Credit Risk**

As of May 31, 2013, the Commission had no investments of more than 5% of its consolidated portfolio.

**Interest Rate Risk**

On May 31, 2013, the effective duration of the Commission's investments, by type, was as follows:

Investment Type	Fair Value	Effective Duration
	<i>(In Thousands)</i>	<i>(In Years)</i>
U.S. Treasuries	\$ 105,795	2.6436
GNMA mortgages	12,327	3.0475
Government agency securities	183,474	1.9039
Municipal bonds	373,181	1.2441
Corporate obligations	306,667	1.3977
Total investment securities	<u>\$ 981,444</u>	

Pennsylvania Turnpike Commission  
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Notes to Financial Statements (continued)

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

**Investment Derivatives – Basis Swaps**

Following is a summary of the Commission's basis swaps at May 31, 2013:

	Notional Amount (Thousands)	Weighted Avg. Mat. (Years)	Effective Date	Maturity Date	Terms	Fair Value (Thousands)	Counterparty	Credit Ratings Moody's/ S&P's/Fitch
	\$ 107,784					\$ 6,482	JP Morgan Chase	Aa3/A+/A+
	107,784					7,110	Merrill Lynch CS*	Baa2/A-/A
	107,784				Pay 67% of 1-month LIBOR	4,993	PNC	A2/A/A+
	134,733				Receive 60.08% of 10-year maturity of the USD-ISDA swap rate	8,891	UBS AG	A2/A/A
A	458,085	8.4	7/1/2007	12/1/2030		27,476		
	112,000				Pay SIFMA	(7,127)	JP Morgan Chase	Aa3/A+/A+
	48,000				Receive 63% of 1-month LIBOR + 20 basis points	(3,054)	UBS AG	A2/A/A
B	160,000	16.1	8/14/2003	12/1/2032		(10,181)		
	80,000				Pay 67% of 1-month LIBOR	4,940	JP Morgan Chase	Aa3/A+/A+
	80,000				Receive 60.15% of 10-year maturity of the USD-ISDA swap rate	4,940	Royal Bank of Canada	Aa3/AA-/AA
C	160,000	16.0	11/15/2007	11/15/2032		9,880		
					Pay SIFMA			
D	145,065	15.9	6/1/2010	6/1/2039	Receive 99.68% of 3-month LIBOR	7,845	GSMMDP	Aa2/AAA/NR
					Pay SIFMA			
E	145,065	15.9	6/1/2010	6/1/2039	Receive 99.80% of 3-month LIBOR	7,921	Deutsche Bank	A2/A+/A+
					Pay 60.08% of 10-year maturity of the USD-ISDA swap rate			
F	107,784	1.5	1/1/2011	1/1/2015	Receive 67% of 1-month LIBOR	(2,845)	Deutsche Bank	A2/A+/A+
					Pay 60.08% of 10-year maturity of the USD-ISDA swap rate			
G	134,733	1.5	1/1/2011	1/1/2015	Receive 67% of 1-month LIBOR	(3,571)	Deutsche Bank	A2/A+/A+
						<u>\$ 36,525</u>		

1-month LIBOR was 0.19428% at May 31, 2013

3-month LIBOR was 0.27525% at May 31, 2013

10-year maturity of the USD-ISDA swap rate was 2.329% at May 31, 2013

SIFMA was 0.12% at May 31, 2013

\* On November 15, 2012, the Commission executed an amendment to the swap agreements to include Merrill Lynch Derivative Products as guarantor. Merrill Lynch Derivative Products credit ratings were Aa3/AAA/NR (Moody's/S&P/Fitch).

*See Note 9 for additional disclosures regarding derivative instruments.*

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Notes to Financial Statements (continued)

**5. Capital Assets**

Summaries of changes to capital assets for the years ended May 31, 2013 and 2012 are as follows:

	Balance May 31, 2012	Additions	Transfers	Reductions	Balance May 31, 2013
	<i>(In Thousands)</i>				
<b>Capital assets not being depreciated (cost)</b>					
Land and intangibles	\$ 256,175	\$ 15,287	\$ -	\$ 152	\$ 271,310
Assets under construction	864,474	399,036	(550,888)	51,009	661,613
Total capital assets not being depreciated	1,120,649	414,323	(550,888)	51,161	932,923
<b>Capital assets being depreciated (cost)</b>					
Buildings	832,592	27,576	38,502	4,965	893,705
Improvements other than buildings	95,198	13,492	3,942	-	112,632
Equipment	531,210	11,270	13,971	6,873	549,578
Infrastructure	6,704,803	12,444	494,473	38,842	7,172,878
Total capital assets being depreciated	8,163,803	64,782	550,888	50,680	8,728,793
Less accumulated depreciation for:					
Buildings	294,378	22,746	-	4,965	312,159
Improvements other than buildings	61,774	4,478	-	-	66,252
Equipment	369,478	29,244	-	6,609	392,113
Infrastructure	3,842,865	255,267	-	38,842	4,059,290
Total accumulated depreciation	4,568,495	311,735	-	50,416	4,829,814
Total capital assets being depreciated, net	3,595,308	(246,953)	550,888	264	3,898,979
Total capital assets	\$ 4,715,957	\$ 167,370	\$ -	\$ 51,425	\$ 4,831,902

For the fiscal year ended May 31, 2013, the Commission recorded an expense of \$51.0 million for the write-down of assets under construction related to design costs for the west leg of the PA Route 51 to Interstate Route 376 project. Due to the magnitude of the estimated costs of construction, the Commission believes it is unlikely to be economically feasible to complete this leg of the project. This expense was recorded as a special item in the statements of revenues, expenses and changes in net position.

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Notes to Financial Statements (continued)

**5. Capital Assets (continued)**

	Balance May 31, 2011	Additions	Transfers	Reductions	Balance May 31, 2012
	<i>(In Thousands)</i>				
<b>Capital assets not being depreciated (cost)</b>					
Land and intangibles	\$ 248,011	\$ 8,164	\$ -	\$ -	\$ 256,175
Assets under construction	1,151,520	422,605	(708,518)	1,133	864,474
Total capital assets not being depreciated	1,399,531	430,769	(708,518)	1,133	1,120,649
<b>Capital assets being depreciated (cost)</b>					
Buildings	813,936	12,398	12,435	6,177	832,592
Improvements other than buildings	92,725	1,590	883	-	95,198
Equipment	498,255	17,722	22,882	7,649	531,210
Infrastructure	6,041,749	14,106	672,318	23,370	6,704,803
Total capital assets being depreciated	7,446,665	45,816	708,518	37,196	8,163,803
Less accumulated depreciation for:					
Buildings	277,522	23,033	-	6,177	294,378
Improvements other than buildings	57,863	3,911	-	-	61,774
Equipment	349,082	27,252	-	6,856	369,478
Infrastructure	3,596,871	246,581	-	587	3,842,865
Total accumulated depreciation	4,281,338	300,777	-	13,620	4,568,495
Total capital assets being depreciated, net	3,165,327	(254,961)	708,518	23,576	3,595,308
Total capital assets	\$ 4,564,858	\$ 175,808	\$ -	\$ 24,709	\$ 4,715,957

The Commission incurred interest costs of \$11.1 million and \$13.4 million for the fiscal years ended May 31, 2013 and 2012, respectively, which qualified for capitalization. For fiscal year 2013, there was a \$0.1 million interest income offset; therefore, \$11.0 million was capitalized. For fiscal year 2012, there was no interest income offset; therefore, the full \$13.4 million was capitalized.

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Notes to Financial Statements (continued)

**6. Service Concession Arrangements**

There are 17 service plazas along the Turnpike System providing gasoline and diesel fuel, other automotive supplies and services, and restaurant services. The Commission has entered into long term service plaza redevelopment agreements with HMSHost Restaurants, LLC and Sunoco, Inc. to design, reconstruct, finance, operate and maintain all of the service plazas. The Commission has no responsibility for maintaining the service plazas under the agreements. The Commission maintains the ability to approve and/or modify the services that the operators can provide and the rates that can be charged. The service plaza operators are compensated by the users of the services and share a portion of that revenue with the Commission as rental payments. Upon completion of construction, the reconstructed assets are recognized by the Commission. The current contracts with HMSHost Restaurants, LLC and Sunoco, Inc. expire on August 25, 2036 and January 31, 2022, respectively. Sunoco, Inc.'s lease may be extended for three additional five-year periods. The first extension shall be at the discretion of Sunoco, Inc., and the second and third extensions shall be mutually agreed to by both parties.

As of May 31, 2013, the Commission had capitalized \$97.2 million in assets representing twelve service plazas that had fully completed construction and recognized deferred inflows of resources of \$88.4 million related to these assets in accordance with GASB Statement No. 60. Also, as of May 31, 2013 and in accordance with GASB Statement No. 60, the Commission recognized a receivable and deferred inflow of resources in the amount of \$26.7 million for the present value of guaranteed minimum rent payments scheduled to begin upon completion of all construction.

In accordance with GASB Statement No. 60, the applicable May 31, 2012 balances were restated. As of May 31, 2012, the Commission had capitalized \$55.1 million in service plaza capital assets. Deferred inflows of resources in the amount of \$49.8 million were recognized related to these assets. The present value of future guaranteed minimum rent payments scheduled to begin upon completion of all construction was recorded as a receivable and also as deferred inflows of resources in the amount of \$25.5 million. These amounts increased total other assets by \$25.5 million to \$125.8 million and increased the deferred inflows of resources by \$75.3 million to \$108.5 million. Capital contributions were decreased by \$13.4 million to \$102.4 million due to deferring the previously recognized contributions. The result of these transactions decreased net investment in capital assets by \$49.8 million to \$967.8 million.



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Notes to Financial Statements (continued)

**7. Debt**

Following is a summary of debt outstanding:

	May 31	
	2013	2012
	<i>(In Thousands)</i>	
<b>Mainline Senior Debt</b>		
<b>2001 Series T:</b> Issued \$86,660 in September 2001 at 4.13% to 5.50%, due in varying installments through December 1, 2013. Interest paid each June 1 and December 1.	\$ 27,005	\$ 40,260
<b>2004 Series A:</b> Issued \$269,245 in June 2004 at 5.00% to 5.50%, due in varying installments through December 1, 2034. Interest paid each June 1 and December 1.	269,245	269,245
<b>2006 Series A:</b> Issued \$118,015 in June 2006 at 5.00%, due in varying installments through December 1, 2026. Interest paid each June 1 and December 1.	118,015	118,015
<b>2008 Series B Multi-Modal:</b> Issued \$402,000 in May 2008 at a variable rate (based on SIFMA, reset weekly, paid the 1 <sup>st</sup> of each month), due in varying installments through December 1, 2038. Series B-2 through B-6 refunded in May 2011.	100,000	100,000
<b>2008 Series C Multi-Modal Revenue:</b> Issued \$50,000 in August 2008 at a variable rate (based on SIFMA, reset weekly, paid the 1 <sup>st</sup> of each month), due in varying installments through June 1, 2038.	50,000	50,000
<b>2009 Series A Build America Bonds:</b> Issued \$275,000 in July 2009 at 6.105%, due in varying installments through June 1, 2039. Interest paid each June 1 and December 1.	275,000	275,000
<b>2009 Series B:</b> Issued \$375,010 in December 2009 at 3% to 5%, due in varying installments through December 1, 2025. Interest paid each June 1 and December 1.	375,010	375,010
<b>2009 Series C:</b> Issued \$208,280 in December 2009 at a variable rate (based on SIFMA + 0.52% to 1.05%, paid the 1 <sup>st</sup> of each month), due in varying installments through December 1, 2014. Partially refunded in November 2011.	104,140	156,210
<b>2010 Series A:</b> Issued \$209,230 in July 2010 at a variable rate (based on SIFMA, reset weekly, paid the 1 <sup>st</sup> of each month), due in varying installments through December 1, 2036.	194,370	198,725
<b>2010 Series B Build America Bonds:</b> Issued \$600,000 in September 2010 at 5.5%, due in varying installments through December 1, 2049. Interest paid each June 1 and December 1.	600,000	600,000
<b>2011 Series A:</b> Issued \$68,660 in April 2011 at 4% to 5%, due in varying installments through December 1, 2023. Interest paid each June 1 and December 1.	68,660	68,660
<b>2011 Series B:</b> Issued \$92,035 in April 2011 at a variable rate (based on SIFMA, reset weekly, paid the 1 <sup>st</sup> of each month), due in varying installments through June 1, 2015.	69,860	69,860
<b>2011 Series C:</b> Issued \$298,330 in May 2011 at a variable rate (based on SIFMA, reset weekly, paid the 1 <sup>st</sup> of each month), due in varying installments through December 1, 2038.	294,355	296,390
<b>2011 Series D:</b> Issued \$52,365 in November 2011 at a variable rate (based on SIFMA +0.05% to 0.55%, reset weekly, paid the 1 <sup>st</sup> of each month), due in equal installments through December 1, 2014. Partially refunded in December 2012.	34,910	52,365
<b>2011 Series E:</b> Issued \$110,080 in November 2011 at 3.63% to 5%, due in varying installments through December 1, 2030. Interest paid each June 1 and December 1.	110,080	110,080
<b>2012 Series A:</b> Issued \$200,215 in July 2012 at 3% to 5%, due in varying installments through December 2042. Interest paid each June 1 and December 1.	200,215	-

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Notes to Financial Statements (continued)

**7. Debt (continued)**

	May 31	
	2013	2012
	<i>(In Thousands)</i>	
<b>Mainline Senior Debt (continued)</b>		
<b>2012 Series B:</b> Issued \$70,060 in November 2012 at a variable rate (based on SIFMA +.55%, reset weekly, paid the 1st of each month) Due at December 1, 2016.	\$ 70,060	\$ -
<b>2013 Series A:</b> Issued \$176,075 in January 2013 at a variable rate (based on SIFMA +.60% and .68%, reset weekly, paid the 1st of each month). Due in varying installments through December 1, 2018	176,075	-
<b>Total Mainline Senior Debt Payable</b>	<b>3,137,000</b>	2,779,820
<b>Mainline Subordinate Debt</b>		
<b>2008 Sub-Series A-1 Subordinate:</b> Issued \$176,565 in April 2008 at 4.125% to 5.00%, due in varying installments through June 1, 2038. Interest paid each June 1 and December 1.	176,565	176,565
<b>2008 Sub-Series A-2 Subordinate (Federally Taxable):</b> Issued \$68,290 in April 2008 at 3.74% to 6.41%, due in varying installments through June 1, 2022. Interest paid each June 1 and December 1.	53,975	58,060
<b>2008 Sub-Series B-1, B-2 Subordinate (B-2 Federally Taxable):</b> Issued \$233,905 in July 2008 at 5.00% to 7.47%, due in varying installments through June 1, 2036. Interest paid each June 1 and December 1.	233,905	233,905
<b>2008 Sub-Series C-1, C-3, C-4 Subordinate (C-4 Federally Taxable):</b> Issued \$411,110 in October 2008 at 4.00% to 6.25%, due in varying installments through June 1, 2038. Interest paid each June 1 and December 1. Sub-Series C-3 refunded July 2009 and Sub-Series C-4 refunded June 2010.	221,585	225,000
<b>2009 Series A Subordinate:</b> Issued \$308,035 in January 2009 at 3.00% to 5.00%, due in varying installments through June 1, 2039. Interest paid each June 1 and December 1.	292,730	297,985
<b>2009 Series B Subordinate:</b> Issued \$856,735 in July 2009 at 3.00% to 5.75%, due in varying installments through June 1, 2039. Interest paid each June 1 and December 1.	856,735	856,735
<b>2009 Series C Subordinate:</b> Issued \$99,998 in July 2009 at 6.25%, due in varying installments through June 1, 2033. Interest to be compounded semi-annually from July 2009 until June 1, 2016, thereafter paid each June 1 and December 1. Series C issued as Capital Appreciation Bonds (CABs). Compounded interest to be paid at maturity or earlier redemption.	126,670	119,108
<b>2009 Series D Subordinate:</b> Issued \$324,745 in October 2009 at 4.00% to 5.50%, due in varying installments through December 1, 2041. Interest paid each June 1 and December 1.	324,745	324,745
<b>2009 Series E Subordinate:</b> Issued \$200,005 in October 2009 at 6.00% to 6.375%, due in varying installments through December 1, 2038. Interest to be compounded semi-annually from October 2009 to December 1, 2017, thereafter paid each June 1 and December 1. Series E issued as CABs. The compounded interest to be paid at maturity or earlier redemption.	249,798	234,817
<b>2010 Sub-Series A-1, A-2, A-3 Subordinate Motor License Fund-Enhanced Special Revenue:</b> Issued \$187,816 in July 2010 at 4.50% to 5.50%. Sub-Series A-1 due in varying installments through December 1, 2038. Interest paid each June 1 and December 1. Sub-Series A-2 issued as convertible CABs. Interest will compound semi-annually until December 1, 2015, thereafter paid each June 1 and December 1. Compound interest paid at maturity or earlier redemption. Sub-Series A-3 issued as CABs. Compounded interest to be paid at maturity or earlier redemption.	203,486	197,697

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Notes to Financial Statements (continued)

**7. Debt (continued)**

	May 31	
	2013	2012
	<i>(In Thousands)</i>	
<b>Mainline Subordinate Debt (continued)</b>		
<b>2010 Sub-Series B-1, B-2 Subordinate:</b> Issued \$273,526 in July 2010 at 5.00%. Sub-Series B-1 due in varying installments through December 1, 2037. Sub-Series B-2 issued as convertible CABs. Interest compounded semi-annually until December 1, 2015, thereafter paid each June 1 and December 1. Compounded interest paid at maturity or earlier redemption.	<b>\$ 303,442</b>	\$ 292,354
<b>2010 Sub-Series B-1, B-2, B-3 Subordinate Motor License Fund-Enhanced Special Revenue:</b> Issued \$105,299 in October 2010 at 3.95% to 5.125%, due in varying installments through December 1, 2040. Sub-Series B-1 interest paid each June 1 and December 1. Sub-Series B-2 issued as convertible CABs. Interest compounded semi-annually until December 1, 2015, thereafter paid each June 1 and December 1. Compound interest paid at maturity or earlier redemption. Sub-Series B-3 issued as CABs with interest paid at maturity or earlier redemption.	<b>113,645</b>	110,301
<b>2010 Sub-Series C-1, C-2, C-3 Subordinate:</b> Issued \$138,916 in October 2010 at 4.25% to 5.45%. Sub-Series C-1 due in varying installments through December 1, 2040. Sub-Series C-2 issued as convertible CABs. Interest compounded semi-annually until December 1, 2015, thereafter paid each June 1 and December 1. Compound interest paid at maturity or earlier redemption. Sub-Series C-3 issued as CABs with interest paid at maturity or earlier redemption.	<b>151,276</b>	146,308
<b>2011 Series A Subordinate:</b> Issued \$135,655 in April 2011 at 5.00% to 6.50%, due in varying installments through December 1, 2041. Interest paid each June 1 and December 1.	<b>135,655</b>	135,655
<b>2011 Series A Subordinate Motor License Fund-Enhanced Special Revenue:</b> Issued \$102,620 in April 2011 at 5.00% to 6.00%, due in varying installments through December 1, 2041. Interest paid each June 1 and December 1.	<b>102,620</b>	102,620
<b>2011 Series B Subordinate:</b> Issued \$126,740 in October 2011 at 2.00% to 5.25%, due in varying installments through December 1, 2041. Interest paid each June 1 and December 1.	<b>123,635</b>	126,740
<b>2011 Series B Subordinate Motor License Fund-Enhanced Special Revenue:</b> Issued \$98,910 in October 2011 at 3.00% to 5.00%, due in varying installments through December 1, 2041. Interest paid each June 1 and December 1.	<b>98,910</b>	98,910
<b>2012 Series A Subordinate:</b> Issued \$123,545 in April 2012 at 3.00% to 5.00%, due in varying installments through December 1, 2042. Interest paid each June 1 and December 1.	<b>123,545</b>	123,545
<b>2012 Series A Subordinate Motor License Fund-Enhanced Special Revenue:</b> Issued \$94,935 in April 2012 at 2.00% to 5.00%, due in varying installments through December 1, 2042. Interest paid each June 1 and December 1.	<b>94,935</b>	94,935
<b>2012 Series B Subordinate:</b> Issued \$121,065 in October, 2012 at 2% to 5%, due in varying installments through December 1, 2042. Interest paid each June 1 and December 1.	<b>121,065</b>	-
<b>2012 Series B Subordinate Motor License Fund-Enhanced Special Revenue:</b> Issued \$92,780 in October, 2012 at 3% to 5%, due in varying installments through December 1, 2042. Interest paid each June 1 and December 1.	<b>92,780</b>	-
<b>2013 Series A Subordinate:</b> Issued \$71,702 in April, 2013 at 3.125% to 5%, due in varying installments through December 1, 2043. Sub-Series A-1 Serial bond interest paid each June 1 and December 1. Sub-Series A-1 Term bond interest paid each June 1 and December 1. Sub-Series A-2 issued as convertible CABs. Interest compounded semi-annually until December 1, 2018, thereafter paid each June 1 and December 1.	<b>71,870</b>	-

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Notes to Financial Statements (continued)

**7. Debt (continued)**

	May 31	
	2013	2012
	<i>(In Thousands)</i>	
<b>Mainline Subordinate Debt (continued)</b>		
<b>2013 Series A Subordinate Motor License Fund-Enhanced Special Revenue:</b> Issued \$92,465 in April, 2013 at 3% to 5%, due in varying installments through December 1, 2043. Interest paid each June 1 and December 1.	\$ 92,465	\$ -
<b>Total Mainline Subordinate Debt Payable</b>	<b>4,366,037</b>	3,955,985
<b>Total Mainline Senior and Subordinate Debt Payable</b>	<b>7,503,037</b>	6,735,805
 <b>Oil Company Franchise Tax Senior Debt</b>		
<b>2003 Series A Oil Company Franchise Tax Revenue:</b> Issued \$124,730 in August 2003 at 2.50% to 5.25%, due in varying installments through December 1, 2024. Interest paid each June 1 and December 1. Partially defeased in November 2006.	35,770	40,510
<b>2003 Series C Oil Company Franchise Tax Multi-Modal Revenue:</b> Issued \$160,000 in August 2003 at a variable rate, converted to a fixed rate of 5.00% in May 2008, due in varying installments through December 1, 2032. Interest paid each June 1 and December 1.	160,000	160,000
<b>2006 Series A Oil Company Franchise Tax Revenue Refunding:</b> Issued \$98,705 in November 2006 at 5.00%, due in varying installments through December 1, 2023. Interest paid each June 1 and December 1.	90,665	93,585
<b>2009 Series A, B, C Oil Company Franchise Tax Revenue:</b> Issued \$164,181 in October 2009. Series A issued at 2.00% to 5.85%, due in varying installments through December 1, 2023. Series B (Build America Bonds, Issuer Subsidy, Federally Taxable) issued at 5.85%, due in varying installments through December 1, 2037. Interest paid each June 1 and December 1. Series C issued as CABs at 5.30%. Interest on the CABs is deferred until maturity on December 1, 2039.	163,233	163,601
<b>Total Oil Company Franchise Tax Senior Debt Payable</b>	<b>449,668</b>	457,696
 <b>Oil Company Franchise Tax Subordinate Debt</b>		
<b>2003 Series B Subordinate Oil Company Franchise Tax Revenue:</b> Issued \$197,955 in August 2003 at 2.38% to 5.50%, due in varying installments through December 1, 2032. Interest paid each June 1 and December 1. Partially defeased in November 2006.	55,185	59,075
<b>2006 Series B Subordinate Oil Company Franchise Tax Revenue Refunding:</b> Issued \$141,970 in November 2006 at 3.75% to 5.00%, due in varying installments through December 1, 2031. Interest paid each June 1 and December 1.	136,375	138,540
<b>2009 Series D, E Subordinate Oil Company Franchise Tax Revenue:</b> Issued \$134,065 in October 2009. Series D issued at 2.00% to 5.00%, due in varying installments through December 1, 2027. Series E (Build America Bonds, Issuer Subsidy, Federally Taxable) issued at 6.378%, due in varying installments through December 1, 2037.	130,395	131,210
<b>Total Oil Company Franchise Tax Subordinate Debt Payable</b>	<b>321,955</b>	328,825
<b>Total Oil Company Franchise Tax Senior and Subordinate Debt Payable</b>	<b>771,623</b>	786,521

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Notes to Financial Statements (continued)

**7. Debt (continued)**

	May 31	
	2013	2012
	<i>(In Thousands)</i>	
<b>Motor License Registration Fee Debt</b>		
<b>2005 Series A:</b> Issued \$234,135 in August 2005 at 3.25% to 5.25%, due in varying installments through July 15, 2030. Interest paid each January 15 and July 15.	\$ 192,225	\$ 198,620
<b>2005 Series B, C, D:</b> Issued \$231,425 in August 2005 at a variable rate (based on SIFMA, reset weekly, paid the 15 <sup>th</sup> of each month), due in varying installments through July 15, 2041.	231,425	231,425
<b>Total Motor License Registration Fee Debt Payable</b>	<b>423,650</b>	430,045
<b>Total Debt Payable</b>	<b>8,698,310</b>	7,952,371
Unamortized premium	178,859	117,576
Unamortized deferred loss on refundings	(152,171)	(166,511)
Total debt, net of unamortized premium and deferred loss on refundings	8,724,998	7,903,436
Less current portion	198,800	127,275
Debt, noncurrent portion	<b>\$ 8,526,198</b>	<b>\$ 7,776,161</b>

SIFMA was 0.12% on May 31, 2013

As disclosed in Note 3, the Commission's Trust Indentures impose certain restrictions and requirements. The Commission's Trust Indenture for the Series 2008 A Turnpike Subordinate Revenue Bonds imposes that the Commission establish and maintain schedules of tolls for traffic over the Turnpike System as required by the Senior Indenture, and in addition, the amount paid into the General Reserve Fund of the Senior Indenture in each fiscal year and for each Commission Payment, will be at least sufficient to provide funds in an amount not less than: (1) 115% of the Annual Debt Service for each fiscal year on account of all outstanding Revenue Bonds and Revenue Bonds Parity Obligations; (2) 100% of the Annual Debt Service for such fiscal year on account of all Outstanding Guaranteed Bonds, Guaranteed Bonds Parity Obligations and Subordinated Indebtedness; and (3) any payment by the Commission required by the Subordinate Indenture for restoring a deficiency in the Debt Service Fund within an eighteen (18) month period.

The Amended and Restated Trust Indenture of 2001 requires that tolls be adequate to provide funds to cover current expenses and (1) provide 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 accordingly.

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Notes to Financial Statements (continued)

**7. Debt (continued)**

The 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, as supplemented; and, (4) all investment earnings on all monies held in accounts and funds established by the 1998 Indenture.

The 1998 Indenture 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.

Pursuant to Section 20 of Act 3, the Commonwealth appropriates \$28.0 million of Act 3 revenues to the Commission annually. The \$28.0 million is payable to the Commission in the amount of \$2.3 million per month. The Registration Fee Revenue Bonds 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's allocation of Act 3 revenues and any income earned on any fund or account established pursuant to the Indenture.

The Commission entered into a loan agreement to borrow up to \$200 million in four tranches of up to \$50 million each through the Immigrant Investor Program (known as the EB-5 visa program) administered by the U.S. Citizenship and Immigration Services. The Commission anticipates borrowing this money in the period 2014 through 2017 to fund a portion of the I-95 Interchange Project. Such debt would be issued under the Senior Indenture on parity with the Turnpike Revenue Bonds. As of May 31, 2013, the Commission has not borrowed any money under this agreement.

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Notes to Financial Statements (continued)

**7. Debt (continued)**

Changes in debt are as follows:

	Balance at June 1, 2012	Additions	Reductions	Balance at May 31, 2013	Due Within One Year
	<i>(In Thousands)</i>				
Mainline debt	\$ 6,735,805	\$ 872,262	\$ 105,030	\$ 7,503,037	\$ 175,530
Oil Company Franchise Tax debt	786,521	952	15,850	771,623	16,550
Motor License Registration Fee debt	430,045	-	6,395	423,650	6,720
	7,952,371	873,214	127,275	8,698,310	198,800
Premium (discount), net	117,576	69,467	8,184	178,859	-
Unamortized deferred loss on refundings	(166,511)	(203)	(14,543)	(152,171)	-
	\$ 7,903,436	\$ 942,478	\$ 120,916	\$ 8,724,998	\$ 198,800

	Balance at June 1, 2011	Additions	Reductions	Balance at May 31, 2012	Due Within One Year
	<i>(In Thousands)</i>				
Mainline debt	\$ 6,482,647	\$ 651,888	\$ 398,730	\$ 6,735,805	\$ 105,030
Oil Company Franchise Tax debt	800,811	905	15,195	786,521	15,850
Motor License Registration Fee debt	436,140	-	6,095	430,045	6,395
	7,719,598	652,793	420,020	7,952,371	127,275
Premium (discount), net	92,167	32,160	6,751	117,576	-
Unamortized deferred loss on refundings	(176,560)	(13,700)	(23,749)	(166,511)	-
	\$ 7,635,205	\$ 671,253	\$ 403,022	\$ 7,903,436	\$ 127,275

The issuance of new debt is conducted in accordance with the terms of the applicable Trust Indenture and approval of the Commissioners.

In October 2011, the Commission issued \$126,740,000 2011 Series B Subordinate Bonds at a fixed rate with a maturity date of December 1, 2041. The 2011 Series B Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

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Notes to Financial Statements (continued)

**7. Debt (continued)**

In October 2011, the Commission issued \$98,910,000 2011 Series B Motor License Fund Enhanced Subordinate Special Revenue Bonds at a fixed rate with a maturity date of December 1, 2041. The 2011 Series B Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In November 2011, the Commission issued \$52,365,000 2011 Series D Senior Bonds at a variable rate with a maturity date of December 1, 2014. The 2011 Series D Bonds were issued primarily to partially refund the 2009 Series C Senior Bonds. The refunding did not change the Commission's debt service. The transaction resulted in an economic loss of \$0.3 million.

In November 2011, the Commission issued \$110,080,000 2011 Series E Senior Bonds at a fixed rate with a maturity date of December 1, 2030. The 2011 Series E Bonds were issued primarily to current refund a portion of the 2001 Series R Bonds. This partial refunding of the 2001 Series R Bonds allowed the Commission to reduce its debt service by approximately \$14.6 million. The transaction resulted in an economic gain of approximately \$8.1 million.

In April 2012, the Commission issued \$123,545,000 2012 Series A Subordinate Bonds at a fixed rate with a maturity date of December 1, 2042. The 2012 Series A Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In April 2012, the Commission issued \$94,935,000 2012 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds at a fixed rate with a maturity date of December 1, 2042. The 2012 Series A Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In July 2012, the Commission issued \$200,215,000 2012 Series A Turnpike Revenue Bonds at a fixed rate with a maturity date of December 1, 2042. The 2012 A bonds are being issued for the purpose of financing the costs of various capital expenditures set forth in the Commission's current ten-year plan including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and/or the rehabilitation of certain interchanges.

In October 2012, the Commission issued \$121,065,000 2012 Series B Subordinate Bonds at a fixed rate with a maturity date of December 1, 2042. The 2012 B Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.



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Notes to Financial Statements (continued)

**7. Debt (continued)**

In October 2012, the Commission issued \$92,780,000 2012 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds at a fixed rate with a maturity date of December 1, 2042. The 2012 B Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In November 2012, the Commission issued \$70,060,000 2012 Series B Senior Bonds at a variable rate with a maturity date of December 1, 2016. The 2012 B Senior Bonds were issued primarily to current refund the \$52,070,000 December 1, 2012 maturity of the Commission's Variable Rate Turnpike Revenue Bonds, Series C of 2009 and the \$17,455,000 December 1, 2012 maturity of the Commission's Variable Rate Turnpike Revenue bonds, Series D of 2011 Bonds and for payment of the costs of issuance of the 2012 Series B Senior Bonds. The refunding did not change the Commission's debt service. The transaction resulted in an economic loss of \$0.5 million.

In January 2013, the Commission issued \$176,075,000 2013 Series A Senior Bonds at a variable rate with a maturity date of December 1, 2018. The 2013 A Senior bonds were issued primarily to finance the cost of various capital expenditures set forth in the Commission's current ten-year capital plan including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and/or the rehabilitation of certain interchanges and for issuing the 2013 A bonds.

In April 2013, the Commission issued \$71,701,729 2013 Series A Subordinate Bonds at a fixed rate with a maturity date of December 1, 2043. The 2013 A Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In April 2013, the Commission issued \$92,465,000 2013 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds at a fixed rate with a maturity date of December 1, 2043. The 2013 A Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In prior years, 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, 2013 and 2012, the Commission had \$415.0 million and \$424.9 million, respectively, of defeased bonds outstanding.

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Notes to Financial Statements (continued)

**7. Debt (continued)**

Debt service requirements subsequent to May 31, 2013 related to all section debt are as follows:

Year Ending May 31	Principal Maturities	Interest	Total
<i>(In Thousands)</i>			
2014	\$ 198,800	\$ 339,493	\$ 538,293
2015	192,255	335,804	528,059
2016	129,465	330,913	460,378
2017	198,120	357,484	555,604
2018	231,135	355,856	586,991
2019-2023	972,355	1,786,159	2,758,514
2024-2028	1,245,241	1,551,563	2,796,804
2029-2033	1,590,104	1,275,421	2,865,525
2034-2038	2,106,846	867,854	2,974,700
2039-2043	1,378,414	361,312	1,739,726
2044-2048	317,700	90,793	408,493
2049 and thereafter	137,875	11,570	149,445
	<u>\$ 8,698,310</u>	<u>\$ 7,664,222</u>	<u>\$ 16,362,532</u>

Debt service requirements subsequent to May 31, 2013 related to the Mainline debt are as follows:

Year Ending May 31	Principal Maturities	Interest	Total
<i>(In Thousands)</i>			
2014	\$ 175,530	\$ 290,099	\$ 465,629
2015	167,915	287,475	455,390
2016	103,985	283,710	387,695
2017	171,460	311,467	482,927
2018	203,165	311,111	514,276
2019-2023	814,715	1,584,982	2,399,697
2024-2028	1,032,201	1,395,996	2,428,197
2029-2033	1,323,979	1,176,251	2,500,230
2034-2038	1,785,617	827,464	2,613,081
2039-2043	1,268,895	315,310	1,584,205
2044-2048	317,700	90,793	408,493
2049 and thereafter	137,875	11,570	149,445
	<u>\$ 7,503,037</u>	<u>\$ 6,886,228</u>	<u>\$ 14,389,265</u>

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Notes to Financial Statements (continued)

**7. Debt (continued)**

Debt service requirements subsequent to May 31, 2013 related to Oil Company Franchise Tax are as follows:

Year Ending May 31	Principal Maturities	Interest	Total
<i>(In Thousands)</i>			
2014	\$ 16,550	\$ 39,107	\$ 55,657
2015	17,290	38,386	55,676
2016	18,070	37,621	55,691
2017	18,885	36,826	55,711
2018	19,785	35,972	55,757
2019-2023	109,790	164,408	274,198
2024-2028	151,235	133,113	284,348
2029-2033	186,430	93,510	279,940
2034-2038	221,289	39,109	260,398
2039-2043	12,299	45,701	58,000
	<u>\$ 771,623</u>	<u>\$ 663,753</u>	<u>\$ 1,435,376</u>

Debt service requirements subsequent to May 31, 2013 related to Motor License Registration Fee debt are as follows:

Year Ending May 31	Principal Maturities	Interest	Total
<i>(In Thousands)</i>			
2014	\$ 6,720	\$ 10,287	\$ 17,007
2015	7,050	9,943	16,993
2016	7,410	9,582	16,992
2017	7,775	9,191	16,966
2018	8,185	8,773	16,958
2019-2023	47,850	36,769	84,619
2024-2028	61,805	22,454	84,259
2029-2033	79,695	5,660	85,355
2034-2038	99,940	1,281	101,221
2039-2043	97,220	301	97,521
	<u>\$ 423,650</u>	<u>\$ 114,241</u>	<u>\$ 537,891</u>

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Notes to Financial Statements (continued)

**7. Debt (continued)**

**Swap Payments and Associated Debt**

Net swap payments and related debt service requirements related to all sections subsequent to May 31, 2013, assuming current interest rates remain the same for the term of the agreements, are as follows:

<b>Year Ending May 31</b>	<b>Principal Maturities</b>	<b>Interest</b>	<b>Hedging Derivative</b>	<b>Total</b>
<i>(In Thousands)</i>				
2014	\$ 71,635	\$ 9,945	\$ 25,530	\$ 107,110
2015	71,720	9,270	25,530	106,520
2016	2,275	8,835	25,528	36,638
2017	72,445	8,613	25,531	106,589
2018	2,475	8,326	25,530	36,331
2019-2023	34,030	41,354	127,988	203,372
2024-2028	133,585	23,812	136,007	293,404
2029-2033	163,705	8,942	105,456	278,103
2034-2038	265,515	4,508	54,743	324,766
2039-2043	135,520	415	7,735	143,670
	<u>\$ 952,905</u>	<u>\$ 124,020</u>	<u>\$ 559,578</u>	<u>\$ 1,636,503</u>

Mainline net swap payments and related debt service requirements for the 2006 Series A, 2008 Series B Multi-Modal, 2009 Series C Senior, 2011 Series C Senior, 2011 Series D Senior and 2012 B Senior bond issues are as follows:

<b>Year Ending May 31</b>	<b>Principal Maturities</b>	<b>Interest</b>	<b>Hedging Derivative</b>	<b>Total</b>
<i>(In Thousands)</i>				
2014	\$ 71,635	\$ 9,528	\$ 16,084	\$ 97,247
2015	71,720	8,854	16,084	96,658
2016	2,275	8,418	16,083	26,776
2017	72,445	8,197	16,085	96,727
2018	2,475	7,910	16,084	26,469
2019-2023	34,030	39,271	80,760	154,061
2024-2028	133,585	21,728	88,779	244,092
2029-2033	129,440	6,941	60,077	196,458
2034-2038	165,575	3,227	25,710	194,512
2039-2043	38,300	114	906	39,320
	<u>\$ 721,480</u>	<u>\$ 114,188</u>	<u>\$ 336,652</u>	<u>\$ 1,172,320</u>

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Notes to Financial Statements (continued)

**7. Debt (continued)**

**Swap Payments and Associated Debt (continued)**

Motor License net swap payments and related debt service requirements for the 2005 Series B, C, and D bond issues are as follows:

Year Ending May 31	Principal Maturities	Interest	Hedging Derivative	Total
<i>(In Thousands)</i>				
2014	\$ -	\$ 417	\$ 9,446	\$ 9,863
2015	-	416	9,446	9,862
2016	-	417	9,445	9,862
2017	-	416	9,446	9,862
2018	-	416	9,446	9,862
2019-2023	-	2,083	47,228	49,311
2024-2028	-	2,084	47,228	49,312
2029-2033	34,265	2,001	45,379	81,645
2034-2038	99,940	1,281	29,033	130,254
2039-2043	97,220	301	6,829	104,350
	\$ 231,425	\$ 9,832	\$ 222,926	\$ 464,183

As rates vary, variable rate bond interest payments and net swap payments will vary.

**8. Retirement Benefits**

Substantially all employees of the Commission participate in the Commonwealth of Pennsylvania State Employees' Retirement System (SERS), a cost-sharing multiple-employer public employee retirement system that was established under the provisions of Public Law 858, No. 331. It is a defined benefit plan that is funded through a combination of employee contributions, employer contributions and investment earnings. Membership in SERS is mandatory for most Commission employees which provides retirement, death, and disability benefits.

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, but before January 1, 2011, are Class AA members. Members hired on or before June 30, 2001 had the option, but were not required, to elect Class AA membership.

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Notes to Financial Statements (continued)

**8. Retirement Benefits (continued)**

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. Retirement benefits for Class A and AA employees vest after five years of credited service. Class A and AA employees who retire at age 60 with three years of service or with 35 years of service if under age 60 are entitled to an unreduced annual retirement benefit.

Act 120, signed into law on November 23, 2010, established Class A-3 and Class A-4 memberships. Effective January 1, 2011, all new members to SERS must elect one of these new membership classes. New members who elect Class A-3 will accrue benefits at 2% of their final average salary multiplied by years of service. Those members choosing Class A-4 will accrue benefits at 2.5% of their final average salary multiplied by years of service. Under Act 120, retirement benefits for Class A-3 and A-4 vest after ten years of credited service. Class A-3 and A-4 members who retire at age 65 with three years of service or when the member's age (last birthday) plus his/her completed years of credit service total at least 92 (Rule of 92) are entitled to an unreduced annual retirement benefit.

Covered Class A, Class AA, Class A-3 and A-4 employees are required by statute to contribute to SERS at a rate of 5%, 6.25%, 6.25% and 9.3% 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 SERS with assets sufficient to meet the benefits to be paid to SERS members. The Commission's retirement contribution, as a percentage of covered payroll, by class is as follows:

<b>Year Ended June 30</b>	<b>Class A</b>	<b>Class AA</b>	<b>Class A-3</b>	<b>Class A-4</b>
<b>2013</b>	<b>8.43%</b>	<b>10.51%</b>	<b>7.29%</b>	<b>7.29%</b>
2012	5.59%	6.99%	4.83%	4.83%
2011	3.29%	4.11%	4.11%	4.11%

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Notes to Financial Statements (continued)

**8. Retirement Benefits (continued)**

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

<b>Year Ended May 31</b>	<b>Commission Required Contribution (In Millions)</b>	<b>% Contributed</b>
<b>2013</b>	<b>\$12.0</b>	<b>100%</b>
2012	\$ 7.9	100%
2011	\$ 5.3	100%

A copy of SERS'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. Additional information about SERS, including its CAFR and actuarial valuation reports, are available at [www.sers.state.pa.us](http://www.sers.state.pa.us).

**9. 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.

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Notes to Financial Statements (continued)

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

**Internal Revenue Service Examination and Correspondence**

The Commission received correspondence from the IRS dated September 27, 2010. In that letter, the IRS stated that the Commission's \$275,000,000 Turnpike Revenue Bonds, Series A of 2009 (Federally Taxable-Issuer Subsidy-Build America Bonds) had been named for examination. The IRS further stated that it "routinely" examines municipal debt issuances to determine compliance with Federal tax requirements and that at this time, the IRS has no reason to believe that the Commission's debt issuance fails to comply with any of the applicable tax requirements.

The Commission received additional correspondence from the IRS dated June 7, 2011. In that letter, the IRS stated that they completed their examination of the Commission's \$275,000,000 Turnpike Revenue Bonds, Series A of 2009 (Federally Taxable-Issuer Subsidy-Build America Bonds). As a result, the IRS made a determination to close the examination with no-change to the position that the Commission is allowed a refundable credit with respect to each interest payment under the Bonds as provided in section 54AA and section 6431 of the Internal Revenue Code of 1986, as amended (the "Code").

**Open Purchase Order Commitments**

The Commission had open purchase order commitments of approximately \$681.1 million and \$545.3 million at May 31, 2013 and 2012, respectively.

**Lease and Funding Agreement between the Commission and PennDOT**

On July 18, 2007, Act 44 was enacted, creating a "public-public partnership" between the Commission and PennDOT to provide funding for roads, bridges and transit throughout the Commonwealth. Subsequently, in order to effectuate the provisions of Act 44 requiring the Commission to make substantial annual payments to PennDOT, the Commission and PennDOT entered into a Lease and Funding Agreement (the Funding Agreement), incorporating many of the terms of Act 44. The term of the Funding Agreement is fifty (50) years from October 14, 2007, its effective date.



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Notes to Financial Statements (continued)

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

**Lease and Funding Agreement between the Commission and PennDOT (continued)**

The Funding Agreement requires the Commission to make scheduled annual payments to PennDOT, payable in equal quarterly installments, to be used to provide funding for roads, bridges and transit in the Commonwealth. The Commission's obligation to pay the annual debt service on any Special Revenue Bonds on a timely basis is part of its payment obligation under the Funding Agreement. The Funding Agreement also granted the Commission the option to lease the portion of Interstate I-80 located in the Commonwealth from PennDOT upon the approval of the Federal Highway Administration (FHWA) of the conversion of such portion into a toll road (the Conversion). The Funding Agreement granted the unilateral option to the Commission to effectuate the Conversion at any time before the third anniversary of the Funding Agreement (the Conversion Period), with the option to extend the Conversion Period for up to three one-year periods.

On October 13, 2007, the Commission and PennDOT submitted a joint application to the FHWA for approval of the Conversion. The FHWA ultimately denied the application on April 6, 2010. Neither the Commission nor PennDOT appealed the FHWA's decision, nor did the Commission extend the Conversion Period during the notice period under the Funding Agreement or give notice of Conversion. Therefore, the Conversion Period lapsed on October 14, 2010 without the Commission effectuating Conversion or having the ability to do so in the future. The Funding Agreement provides that the Commission's aggregate annual payments to PennDOT are limited to \$450 million annually upon lapse of the Conversion option and such payment amount commenced with the 2010-2011 Fiscal Year. Under existing law, all legal, financial and operational responsibility for I-80 remains with PennDOT.

The Commission made payments of \$450 million (recorded as nonoperating expense) in both fiscal years reported in these statements.

The Commission is required by the terms of the Funding Agreement and Act 44 to fix and adjust tolls at levels that will generate revenues (together with other available moneys) sufficient to pay, among other things, amounts to PennDOT pursuant to the Funding Agreement when due and other obligations of the Commission, and the Commission has covenanted in the Subordinate Indenture to set tolls at a level sufficient to meet its coverage obligations taking into account any additional debt incurred in order to make such payments. The Commission believes that Turnpike System revenues should enable it to satisfy its reduced payment obligations as set forth in Act 44 without reliance on any I-80 toll revenues.

Pennsylvania Turnpike Commission  
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Notes to Financial Statements (continued)

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

**Lease and Funding Agreement between the Commission and PennDOT (continued)**

Due to the significance of the quarterly payments under Act 44, the Commission currently does not have excess cash from operations to finance its required payments to PennDOT. Therefore, the Commission plans to continue to increase toll rates annually and to issue debt for the foreseeable future to finance the majority of these payments. There can be no assurance that the Commission will be able to continue to issue debt on terms that are acceptable, or at all, to finance these obligations. The sole and exclusive remedy for the failure to make the required payments to PennDOT under the Funding Agreement is that all actions of the Commission taken by a vote of the Commissioners thereafter must be approved by a unanimous vote of all Commissioners until such time as the payment is made. However, under Act 44, a unanimous vote is not required if it would prevent the Commission from complying with covenants with “current bondholders, debt holders or creditors.” The Funding Agreement does not refer to “current bondholders, debt holders or creditors,” but provides that a unanimous vote is not required if it would prevent the Commission from complying with covenants with “bondholders, debt holders or creditors having such status as of the Effective Date,” which under the Funding Agreement is defined as October 14, 2007. These voting procedures have not become effective as the Commission has not missed any payments under the Funding Agreement.

Act 44 provides that all required payments under the Funding Agreement or as required by Act 44 shall be subordinate obligations of the Commission payable solely from the General Reserve Fund after meeting all other Commission requirements pursuant to any financial documents, financial covenants, liquidity policies or agreements in effect at the Commission.

## Notes to Financial Statements (continued)

## Interest Rate Swaps

		<u>Changes in fair value</u>		<u>Fair Value at May 31, 2013</u>		
	<u>May 31, 2012</u>	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
		<i>(In Thousands)</i>				
<b>Cash flow hedges:</b>						
Pay-fixed interest rate swap	\$ (198,518)	Deferred outflow	\$ 81,149	Noncurrent liabilities	\$ (117,369)	\$ 685,455
<b>Fair value hedges:</b>						
Receive-fixed rate swap	33,229	Deferred inflow	(6,912)	Noncurrent liabilities	26,317	118,015
<b>Investment derivative instruments:</b>						
Basis swaps	22,569	Investment earnings	13,956	Long-Term investments	36,525	1,310,732
<b>Total PTC</b>	<b>\$ (142,720)</b>		<b>\$ 88,193</b>		<b>\$ (54,527)</b>	

		<u>Changes in fair value</u>		<u>Fair Value at May 31, 2012</u>		
	<u>May 31, 2011</u>	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
			(In Thousands)			
<b>Cash flow hedges:</b>				<b>Noncurrent</b>		
Pay-fixed interest rate swap	\$ (67,155)	Deferred outflow	\$ (131,363)	liabilities	\$ (198,518)	\$ 685,455
<b>Fair value hedges:</b>						
Receive-fixed rate swap	17,664	Deferred inflow	15,565	Noncurrent liabilities	33,229	118,015
<b>Investment derivative instruments:</b>						
Basis swaps	<u>20,142</u>	Investment earnings	<u>2,427</u>	Long-Term investments	<u>22,569</u>	1,315,792
<b>Total PTC</b>	<b>\$ (29,349)</b>		<b>\$ (113,371)</b>		<b>\$ (142,720)</b>	

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Notes to Financial Statements (continued)

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

**Interest Rate Swaps (continued)**

*Fair Values*

Fair values of the Commission's derivative instruments were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bonds due on the date of each future net settlement payment on the swaps.

*Recent Activity*

In November 2011, the Commission issued 2011 Series D Senior Bonds primarily to partially refund the 2009 Series C Senior Bonds. Concurrently, \$38,495,000 of the related swaps were deemed terminated and are now associated with the 2011 Series D Senior Bonds. The fair value of these swaps at the time of the deemed termination was a negative \$5,046,312. This amount is being amortized over the three year period ending December 1, 2014, which is final maturity for both the 2009 Series C Senior Bonds and the 2011 Series D Senior Bonds.

In November 2012, the Commission issued 2012 Series B Senior Bonds primarily to partially refund the 2009 Series C Senior Bonds and the 2011 Series D Senior Bonds. Concurrently, \$38,495,000 of the 2009 Series C Senior Bonds related swaps and \$12,831,667 of the 2011 Series D Senior Bonds related swaps were deemed terminated and are now associated with the 2012 Series B Senior Bonds. The fair value of these swaps at the time of the deemed termination was a negative \$7,428,303. This amount is being amortized over the two year period ending December 1, 2014, which is the final maturity for both the 2009 Series C Senior Bonds and the 2011 Series D Senior Bonds.

**Pennsylvania Turnpike Commission**  
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**Notes to Financial Statements (continued)**

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

**Interest Rate Swaps (continued)**

Following is a summary of the hedging derivatives in place as of May 31, 2013. These hedging derivatives contain certain risks and collateral requirements as described below (in thousands):

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty	Moody's/ S&P/Fitch	Book Fair Value	Full Value (to) from Counterparty
Pay fixed Interest Rate Swap	Hedge of changes of cash flows of 2012 Series B Bonds (formerly 2009 Series C & 2011 Series D Bonds)	\$ 12,836 25,655 12,836 \$ 51,327	11/30/2012	12/1/2030	Pay 4.403%, receive 67.00% of 1-month LIBOR	Bank of America* JP Morgan Chase UBS AG	A3/A/A Aa3/A+/A+ A2/A/A	\$ 704 1,406 704 \$ 2,814	\$ (4,163) (8,321) (4,163) (16,647)
Pay fixed Interest Rate Swap	Hedge of changes of cash flows of 2011 Series D Bonds (formerly 2009 Series C Bonds)	\$ 6,418 12,827 6,418 \$ 25,663	12/1/2011	12/1/2030	Pay 4.403%, receive 67.00% of 1-month LIBOR	Bank of America* JP Morgan Chase UBS AG	A3/A/A Aa3/A+/A+ A2/A/A	\$ 79 159 79 \$ 317	\$ (2,082) (4,161) (2,082) (8,325)
Pay fixed Interest Rate Swap	Hedge of changes of cash flows of 2009 Series C Bonds (formerly 2002 Series A Bonds)	\$ 19,266 38,508 19,266 \$ 77,040	12/9/2009	12/1/2030	Pay 4.403%, receive 67.00% of 1-month LIBOR	Bank of America* JP Morgan Chase UBS AG	A3/A/A Aa3/A+/A+ A2/A/A	\$ (2,112) (4,221) (2,112) \$ (8,445)	\$ (6,249) (12,489) (6,249) (24,987)
Pay fixed Interest Rate Swap	Hedge of changes of cash flows on the 2005 Series B,C,D Bonds	\$ 57,860 57,845 57,860 \$ 231,425	8/17/2005	7/15/2041	Pay 4.2015%, receive SIFMA	Citibank JP Morgan Chase Merrill Lynch CS* Morgan Stanley	A3/A/A Aa3/A+/A+ Baa2/A-/A Baa1/A-/A	\$ (14,238) (14,234) (14,231) (14,231) \$ (56,934)	\$ (14,238) (14,234) (14,231) (14,231) (56,934)
Pay fixed Interest Rate Swap	Hedge of changes in cash flow on the 2008 Series B Bonds	\$ 33,333 33,333 33,334 \$ 100,000	6/1/2008	12/1/2038	Pay 4.887%, receive SIFMA	GSMMMDP Merrill Lynch CS* Morgan Stanley	Aa2/AAA/NR Baa2/A-/A Baa1/A-/A	\$ (11,755) (11,754) (11,755) \$ (35,264)	\$ (11,755) (11,754) (11,755) (35,264)
Pay fixed Interest Rate Swap	Hedge of changes of cash flow on the 2011 Series C Bonds (formerly 2008 Series B Bonds)	\$ 66,667 66,667 66,666 \$ 200,000	5/26/2011	12/1/2038	Pay 4.887%, receive SIFMA	GSMMMDP Merrill Lynch CS* Morgan Stanley	Aa2/AAA/NR Baa2/A-/A Baa1/A-/A	\$ (6,619) (6,619) (6,619) \$ (19,857)	\$ (23,510) (23,509) (23,510) (70,529)
Total pay fixed interest rate swaps		\$ 685,455						\$ (117,369)	\$ (212,686)
Pay variable Interest Rate Swap	Hedge of changes of fair value of 2006 Series A Bonds	\$ 118,015	6/9/2006	12/1/2026	Receive 4.186%, Pay SIFMA	Citibank	A3/A/A	\$ 26,317	\$ 26,317

1-month LIBOR was 0.19428% at May 31, 2013.

SIFMA was 0.12 % at May 31, 2013.

\* On November 15, 2012, the Commission executed an amendment to the swap agreements to include Merrill Lynch Derivative Products as guarantor. Merrill Lynch Derivative Products credit ratings were Aa3/AAA/NR (Moody's/S&P/Fitch).

The full value (to) from Counterparty listed is the mid-market value at May 31, 2013. The difference between full value and book fair value is related to the value of the swaps at the time the related bonds were refunded. This value is being amortized over the shorter of the life

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Notes to Financial Statements (continued)

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

**Interest Rate Swaps (continued)**

- **Credit Risk** – The Commission is exposed to credit risk for both hedging derivatives and investment derivatives (see Note 4) that have positive fair values. The Commission was exposed to credit risk with respect to the 2012 Series B Senior Bonds, 2011 Series D Senior Bonds, and 2006 Series A Senior Bonds swaps at May 31, 2013. The Commission is also exposed to credit risk with respect to the (A), (C), (D) and (E) basis swaps listed in Note 4. However, should interest rates change and the fair values of the other swaps become positive, the Commission would have additional credit risk exposure.

To mitigate the exposure to 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's derivative agreements contain netting provisions, under which transactions executed with a single counterparty within a credit are netted in the event of default or counterparty insolvency. At May 31, the Commission had net credit risk exposure to four counterparties, one of which posted collateral in the amount of \$32.2 million, pursuant to the provisions of the derivative agreement. Two counterparties were not required to post collateral because the fair values at year end were below the collateral threshold amounts. The remaining counterparty's credit rating was investment grade; therefore, no collateral was required.

- **Interest Rate Risk** – The Commission is exposed to variable interest rates with respect to the fixed-to-variable swap agreement associated with the 2006 Series A Senior Bonds. Additionally, the Commission will be exposed to variable interest rates if the swap provider for a variable-to-fixed swap agreement defaults or if a variable-to-fixed swap is terminated.

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Notes to Financial Statements (continued)

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

**Interest Rate Swaps (continued)**

- **Basis Risk** – The Commission is exposed to basis risk on its basis swaps because the variable-rate payments received by the Commission on these derivative instruments are based on rates other than the interest rates the Commission pays on these derivative instruments. See the basis swap schedule in Note 4 for the terms of the interest rate swap agreements. The Commission's exposure to basis risk for the swaps listed in Note 4 is as follows:
  - (A) – To the extent 67% of 1-month LIBOR exceeds 60.08% of the 10-year maturity of the USD-ISDA Swap Rate
  - (B) – To the extent SIFMA exceeds 63% of 1-month LIBOR + 20 basis points
  - (C) – To the extent 67% of 1-month LIBOR exceeds 60.15% of the 10-year maturity of the USD-ISDA Swap Rate
  - (D) – To the extent SIFMA exceeds 99.68% of 3-month LIBOR
  - (E) – To the extent SIFMA exceeds 99.80% of 3-month LIBOR
  - (F) – To the extent 60.08% of the 10-year maturity of the USD-ISDA Swap Rate exceeds 67% of 1-month LIBOR
  - (G) – To the extent 60.08% of the 10-year maturity of the USD-ISDA Swap Rate exceeds 67% of 1-month LIBOR
- **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 a swap agreement is terminated (by either party), the respective variable-rate bond would no longer carry a synthetic fixed interest rate. Also, if at the time of termination, the swap had a negative fair value, the Commission would be liable to the swap counterparty for a liability equal to the swap's full value. It is generally the Commission's intent at the time of swap execution to maintain the swap transactions for the life of the financing.

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Notes to Financial Statements (continued)

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

**Interest Rate Swaps (continued)**

- ***Collateral Requirements*** – The Commission’s derivative instruments related to its Mainline Turnpike Revenue Bonds require the Commission to post collateral in the form of eligible securities or cash if its senior credit rating falls below specified thresholds. These thresholds vary from agreement to agreement, with most in the “A3” (Moody’s Investors Service) and “A-” (Standard & Poor’s and Fitch Rating Service) levels. The Commission’s Mainline senior bond rating was “A1” from Moody’s and “A+” from both Standard & Poor’s and Fitch at May 31, 2013. Based on May 31, 2013 full values, the Commission could be required to post \$125.4 million in collateral for its derivative instruments if its ratings fall below the agreement thresholds.

The Commission’s derivative instruments related to its Oil Company Franchise Tax Revenue Bonds require the Commission to post collateral in the form of eligible securities or cash if its credit rating falls below specified thresholds. These thresholds vary from agreement to agreement, with most in the “A3” (Moody’s Investors Service) and A- (Standard & Poor’s and Fitch Rating Service) levels. The Commission’s Oil Company Franchise Tax senior bond rating is currently “Aa3” from Moody’s and “AA” from Standard & Poor’s. Based on May 31, 2013 full values, the Commission could be required to post \$5.2 million in collateral for its derivative instruments if its ratings fall below the agreement thresholds.

The Commission’s derivative instruments related to its Motor Vehicle Registration Fee Revenue Bonds require the Commission to post collateral in the form of eligible securities or cash if its credit rating falls below specified thresholds and/or in the event of certain uncured insurer events of default. These thresholds vary from agreement to agreement. The Commission’s Motor Vehicle Registration Fee Revenue bond rating was “Aa3” from Moody’s, “A” from Standard & Poor’s and “AA-” from Fitch at May 31, 2013. Based on May 31, 2013 full values, the Commission could be required to post \$56.9 million in collateral for its derivative instruments if its ratings fall below the agreement thresholds.

**10. Related Party Transactions**

The Commission incurred costs of \$38.2 million and \$36.1 million for the fiscal years ended May 31, 2013 and 2012 respectively, related to its use of the Commonwealth’s State Police in patrolling the Turnpike System.



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Notes to Financial Statements (continued)

**11. Postemployment Benefits**

**Plan Description**

The Commission maintains a welfare plan program (the Plan), for the purpose of providing benefits to eligible retirees and their dependents. The Plan is a single employer, defined benefit plan. The Commission established the Pennsylvania Turnpike Commission Retiree Medical Trust (the Trust) on May 30, 2008 as an irrevocable trust, tax-exempt under the Internal Revenue Code, to provide funding of the Plan's other post-employment benefits (OPEB).

The Trust is administered by the Trustees. PNC Bank serves as custodian of the assets of the Trust. Payments from the Trust are made by the custodian at the direction of the Trustees. The Trust's financial statements are not included in the financial statements of a public employee retirement system. The Trust issues a stand-alone financial report, which can be obtained by contacting the Commission's Accounting Department.

Plan benefit provisions and retiree and dependent contribution rates are established and may be amended by the Commission.

*Management Employees/Retirees*

The benefits funded by the Trust include certain post-employment medical, prescription drug, dental and vision benefits to management employees who have reached 20 years of service and are under age 60; and benefit eligibility changes from 20 to 10 years for retirees 60 years of age or older. The same coverage is provided to surviving spouses and dependents of management retirees who retired on or after March 1, 2001. Surviving spouses of retirees who retired prior to March 1, 2001 are required to contribute the full cost of the coverage and dependents are offered coverage under COBRA. Medicare Part B premiums are paid by the retiree, spouse or dependent if age 65 or over, or under age 65 and disabled.

*Union Employees/Retirees*

The benefits also include certain post-employment medical and prescription drug benefits to union employees who have reached 20 years of service and are under age 60; and benefit eligibility changes from 20 to 10 years for employees 60 years of age or older. The same coverage is provided to spouses and dependents of eligible union retirees until the death of the retiree. Surviving spouses are required to contribute the full cost of coverage and dependents are offered coverage under COBRA.

Pennsylvania Turnpike Commission  
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Notes to Financial Statements (continued)

**11. Postemployment Benefits (continued)**

**Funding Policy**

The Commission has adopted a Retiree Medical Trust Funding Policy, effective September 17, 2008, whereby the Commission anticipates approving an annual contribution to the Trust in the amount of the Annual Required Contribution (ARC) as determined by the Commission's actuary during the approval of its annual operating budget.

**Annual OPEB Cost and Net OPEB Asset**

The following chart summarizes the components of the Commission's annual OPEB cost, actual contributions, percentage of annual OPEB cost contributed, increase in the net OPEB asset and the net OPEB asset at the end of the fiscal year.

	Year ended May 31		
	2013	2012	2011
	<i>(Dollar Amounts in Thousands)</i>		
Normal cost	\$ 9,019	\$ 7,356	\$ 6,931
Trust expense assumption	150	-	-
Amortization	13,095	20,377	18,745
Interest	1,159	1,088	1,027
Annual required contribution (ARC)	23,423	28,821	26,703
Interest on net OPEB asset	(2,021)	(283)	(141)
Adjustment to ARC	4,110	527	168
Annual OPEB cost	25,512	29,065	26,730
Employer contributions	54,768	54,397	28,505
Percentage of annual OPEB cost contributed	214.7%	187.2%	106.6%
Increase in net OPEB asset	29,256	25,332	1,775
Net OPEB asset – beginning of year	28,871	3,539	1,764
Net OPEB asset – end of year	\$ 58,127	\$ 28,871	\$ 3,539

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Notes to Financial Statements (continued)

**11. Postemployment Benefits (continued)**

**Annual OPEB Cost and Net OPEB Asset (continued)**

The ARC and its components (normal cost, trust expense assumption, UAAL amortization, and mid-year contribution interest) in the table on the previous page were obtained from the biennial actuarial valuations, prepared by an independent actuary. The fiscal year 2013 and 2012 ARC and Annual OPEB cost amounts were obtained from a March 1, 2012 valuation. The fiscal year 2011 ARC amount was obtained from a March 1, 2010 valuation.

Retiree and spouse contribution rates at May 31, 2013 are as follows:

- Management employees and union employees who retired prior to July 1, 1998 and October 1, 1997, respectively—the retiree/spouse contributes the full cost of coverage less the Commission’s monthly subsidy of \$19.28 once the retiree turns 65.
- Union employees who retired on October 1, 1997 or later—the retiree/spouse contributes the full cost of coverage less the Commission’s monthly subsidy of \$73.50 when the retiree or spouse reach age 65.
- Surviving spouses are paying 100% of the premiums, except for surviving spouses of Management employees who retired after March 1, 2001.

**Funding Status and Funding Progress**

The actuarial value of assets, AAL, and UAAL amounts for the fiscal year ended May 31, 2012 and 2010 in the chart below were obtained from actuarial valuations, prepared by independent actuaries, as of March 1, 2012 and 2010, respectively.

<b>Fiscal Year Ended May 31</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
<i>(Dollar Amounts in Thousands)</i>						
2012	\$ 152,341	\$ 250,750	\$ 98,409	60.8%	\$ 124,241	79.2%
2010	66,436	263,398	196,962	25.2%	123,754	159.2%

Pennsylvania Turnpike Commission  
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Notes to Financial Statements (continued)

**11. Postemployment Benefits (continued)**

**Actuarial Methods and Assumptions**

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information depicting the change in the actuarial value of Plan assets over time relative to the actuarial accrued liability for benefits.

The valuation measurements in the charts on the previous pages are, in part, the result of estimates of the value of reported amounts and assumptions about the probability of events in the long term. Such actuarially determined estimates are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Also, the valuation measurements are based, in part, on the types of benefits provided under the terms of the substantive plan at the time of the valuation and on the pattern of sharing of costs between the Commission and the Plan members through the respective valuation dates. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

A summary of the actuarial methods and assumptions used in the March 1, 2012 valuation is as follows:

Actuarial cost method	Projected Unit Credit
Discount rate	7%
Rate of return on assets	7%
Amortization method	Level dollar
Amortization period	10 years (closed)
Asset valuation method	Fair value
Benefit Assumption – increases/decreases	No changes

**Health Cost Trend:** The healthcare trend assumption for medical and pharmacy benefits and premiums is based on the Society of Actuaries-Getzen Model version 11.1 utilizing the baseline assumptions included in the model, except GDP inflation is assumed to be 2.75% per year and real GDP growth is assumed to be 1.8% per year, for fiscal years 2016 and later. Further adjustments are made for aging, percentage of costs associated with administrative expenses, inflation on administrative costs, and potential excise tax due to Healthcare Reform.

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Notes to Financial Statements (continued)

**11. Postemployment Benefits (continued)**

**Actuarial Methods and Assumptions (continued)**

The health cost trend assumption for medical and pharmacy benefits at sample years is as follows:

<b>Valuation Year Ending February 28</b>	<b>Pre-65 Trend</b>	<b>Post-65 Trend</b>
2013	7.3%	7.3%
2014	7.4%	7.4%
2015	6.2%	6.2%
2016	5.9%	5.9%
2017	5.9%	5.9%
2018	5.8%	5.8%
2019	5.8%	5.8%
2020	5.8%	5.8%
2025	5.8%	5.7%
2030	6.8%	5.7%
2035	6.6%	5.6%
2040	6.0%	5.4%
2045	5.8%	5.6%
2050	5.7%	5.5%
2055	5.6%	5.9%

The health cost trend assumptions for dental and vision benefits and premiums are assumed to be 4.5% per year.

Salary increases were not considered as OPEB benefits are not based upon pay.

**12. 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.

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Notes to Financial Statements (continued)

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

The Commission recorded a liability of \$37.6 million and \$31.9 million for loss and loss adjustment expenses on claims relating to self-insurance that have been incurred but not reported as of May 31, 2013 and 2012, 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 for automobile and general tort was not discounted. The liability for workers' compensation was discounted using a rate of 3.25% and 4.05% for each of the fiscal years ended May 31, 2013 and 2012. 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, 2013 and 2012. 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.

The self-insurance liabilities are \$37.6 million and \$31.9 million for fiscal years ended May 31, 2013 and 2012, respectively. The self-insurance liabilities recorded as accounts payable and accrued liabilities are \$2.7 million and \$1.9 million for the fiscal years ended May 31, 2013 and 2012, respectively. The self-insurance liabilities recorded as other noncurrent liabilities are \$34.9 million and \$30.0 million for the fiscal years ended May 31, 2013 and 2012, respectively.

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Notes to Financial Statements (continued)

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

The following summaries provide aggregated information on self-insurance liabilities:

	June 1, 2012 Liability	Effects of Discount as of June 1, 2012	Incurred Claims		Paid Claims		Effects of Discount as of May 31, 2013	May 31, 2013 Liability
			Current Year	Prior Years	Current Year	Prior Years		
<i>(In Thousands)</i>								
<b>Year ended May 31, 2013</b>								
Workers' compensation	\$ 6,278	\$ 2,056	\$ 1,558	\$ 1,504	\$ (568)	\$ (2,491)	\$ (1,675)	\$ 6,662
Automobile/general tort	25,586	-	5,897	(416)	(54)	(94)	-	30,919
	<u>\$ 31,864</u>	<u>\$ 2,056</u>	<u>\$ 7,455</u>	<u>\$ 1,088</u>	<u>\$ (622)</u>	<u>\$ (2,585)</u>	<u>\$ (1,675)</u>	<u>\$ 37,581</u>
	June 1, 2011 Liability	Effects of Discount as of June 1, 2011	Incurred Claims		Paid Claims		Effects of Discount as of May 31, 2012	May 31, 2012 Liability
			Current Year	Prior Years	Current Year	Prior Years		
<i>(In Thousands)</i>								
<b>Year ended May 31, 2012</b>								
Workers' compensation	\$ 6,328	\$ 1,833	\$ 897	\$ 2,544	\$ (561)	\$ (2,707)	\$ (2,056)	\$ 6,278
Automobile/general tort	20,477	-	6,155	2,224	(556)	(2,714)	-	25,586
	<u>\$ 26,805</u>	<u>\$ 1,833</u>	<u>\$ 7,052</u>	<u>\$ 4,768</u>	<u>\$ (1,117)</u>	<u>\$ (5,421)</u>	<u>\$ (2,056)</u>	<u>\$ 31,864</u>

The foregoing reflects an adjustment for a deficiency of \$1.1 million and \$4.8 million for the fiscal years ended May 31, 2013 and 2012, respectively, for prior years' incurred claims that resulted from a change in estimate as more information became available.

**13. 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 \$1.9 and \$1.8 million in November 2012 and 2011 respectively.

Vacation leave is earned at varying rates, depending on years of service. Management employees earn between 4.62 and 8.93 hours every two weeks. Union employees earn between 3.08 and 8.93 hours every two weeks.

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Notes to Financial Statements (continued)

**13. Compensated Absences (continued)**

Upon termination of employment, all unused sick and vacation leave is paid to the employee. The compensated absences liabilities are \$16.7 million and \$16.1 million for fiscal years ended May 31, 2013 and 2012, respectively. The compensated absences liabilities recorded as accounts payable and accrued liabilities are \$9.2 million and \$9.7 million for the fiscal years ended May 31, 2013 and 2012, respectively. The compensated absences liabilities recorded as other noncurrent liabilities are \$7.5 million and \$6.4 million for the fiscal years ended May 31, 2013 and 2012, respectively.

A summary of changes to compensated absences for the years ended May 31, 2013 and 2012 is as follows:

<b>Fiscal Year Ended May 31</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
			<i>(In Thousands)</i>		
<b>2013</b>	<b>16,146</b>	<b>12,771</b>	<b>12,187</b>	<b>16,730</b>	<b>9,202</b>
2012	16,182	11,882	11,918	16,146	9,709

**14. Letters of Credit**

The Commission has outstanding letters of credit with several banks as described in the paragraphs below:

Supplemental Trust Indenture No. 13 dated as of May 1, 2008, amendment and restatement of the Amended and Restated Indenture of Trust dated as of March 1, 2011, between the Commission and U.S. Bank National Association required a Letter of Credit to be established for the 2008 Series B-1 Turnpike Multi-Modal Revenue Bonds. The Commission entered into a Letter of Credit with Barclays Bank PLC in the amount of up to \$102,136,987 for purposes of paying debt service obligations on the bonds. The Commission draws against this letter of credit each month to fund the related debt service payments. The Commission makes monthly reimbursements for these draws against the letter of credit. During fiscal year 2013, the Commission made draws against the Letter of Credit and reimbursements to Barclays in the amount of \$202,049 and \$202,049, respectively. There were no outstanding draws against the Letter of Credit at May 31, 2013.



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Notes to Financial Statements (continued)

**14. Letters of Credit (continued)**

Supplemental Trust Indenture No. 14 dated as of August 1, 2008, amendment and restatement of the Amended and Restated Indenture of Trust dated as of March 1, 2011, between the Commission and U.S. Bank National Association required a Letter of Credit to be established for the 2008 Series C Turnpike Multi-Modal Revenue Bonds. The Commission entered into a Letter of Credit with Barclays Bank PLC in the amount of up to \$50,854,795 for purposes of paying debt service obligations on the bonds. The Commission draws against this letter of credit each month to fund the related debt service payments. The Commission makes monthly reimbursements for these draws against the letter of credit. During fiscal year 2013, the Commission made draws against the Letter of Credit and reimbursements to Barclays in the amount of \$87,117 and \$87,117, respectively. There were no outstanding draws against the Letter of Credit at May 31, 2013.

Pennsylvania insurance law requires a Letter of Credit, Surety Bond, or Escrow from entities that self-insure their Workers Compensation. Therefore, the Commission has four (4) Standby Letters of Credit to satisfy the PA Turnpike's collateral requirement under the expired Owner Controlled Insurance Program (OCIP) with Zurich American Insurance. As of May 31, 2013, there have been no draws against these Letters of Credit. The Letters of Credit are as follows:

- \$450,000 Letter of Credit with PNC Bank, N.A. for beneficiary Zurich American Insurance for the Allegheny River Bridge OCIP.
- \$581,000 Letter of Credit with PNC Bank, N.A. for beneficiary Zurich American Insurance for the Uniontown to Brownsville Phase I OCIP.
- \$2,000,000 Letter of Credit with Wells Fargo Bank, N.A. for beneficiary Zurich American Insurance for the Uniontown to Brownsville Phase II OCIP.
- \$255,000 Letter of Credit with Wells Fargo Bank, N.A. for beneficiary Zurich American Insurance for the Susquehanna River Bridge and Valley Forge to Norristown Widening OCIPs.

As of May 31, 2012, there was a \$90,000 Letter of Credit with PNC Bank, N.A. for beneficiary Zurich American Insurance for the Findlay Connector OCIP. This Letter of Credit was closed on November 27, 2012.

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Notes to Financial Statements (continued)

**15. Subsequent Events**

On June 27, 2013, the Commission entered into two novation agreements for three swaps with UBS AG and The Bank of New York Mellon. The prior counterparty to the Commission for both novation agreements was UBS AG; the subsequent counterparty to the Commission for both novation agreements is The Bank of New York Mellon. The total notional amount of the three swaps was \$221,253,000 at May 31, 2013.

On July 23, 2013, the Commission issued 2013 Series B Senior Bonds in the principal amount of \$265,155,000 at a variable rate maturing on December 1, 2020. The 2013 B bonds were issued for the purpose of financing the costs of: (a) the current refunding of the Commission's outstanding (1) Variable Rate Turnpike Revenue Bonds, Series C of 2009, maturing on December 1, 2013, in the aggregate principal amount of \$52,070,000; (2) Turnpike Multi-Modal Revenue Refunding Bonds Series A-1 of 2010, maturing on December 1, 2035, currently outstanding in the aggregate principal amount of \$97,230,000; (3) Turnpike Multi-Modal Revenue Refunding Bonds, Series A-2 of 2010, maturing on December 1, 2035, currently outstanding in the aggregate principal amount of \$97,140,000; and (4) Variable Rate Turnpike Revenue Bonds, Series D of 2011, maturing on December 1, 2013, currently outstanding in the aggregate principal amount of \$17,455,000; and (b) issuing the 2013 B Bonds.

On August 20, 2013, the Commission issued 2013 Series C Senior Bonds in the principal amount of \$222,935,000 at a fixed interest rate maturing on December 1, 2043. The 2013 Series C Senior Bonds were issued for the purpose of financing the costs of: (a) various capital expenditures set forth in the Commission's current ten-year capital plan including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and/or the rehabilitation of certain interchanges; and (b) issuing the 2013 Series C Senior Bonds.

## Required Supplementary Information

Pennsylvania Turnpike Commission  
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Required Supplementary Information

**Schedule of Funding Progress – Postemployment Healthcare Benefits**  
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
March 1, 2012	\$ 152,341	\$ 250,750	\$ 98,409	60.8%	\$ 124,241	79.2%
March 1, 2010	66,436	263,398	196,962	25.2%	123,754	159.2%
March 1, 2008	14,000	228,067	214,067	6.1%	118,559	180.6%

Following is a listing of changes in assumptions used in the March 1, 2012 valuation compared with previous valuations.

- **Economic Assumptions** – The discount rate was reduced from 8% to 7%.
- **Healthcare Assumptions** – Per capita claims costs were updated based on recent experience of Commission retirees and the healthcare trend was modified to reflect the use of the “Getzen” model and to incorporate the estimated impact of the excise tax beginning in 2018 due to Healthcare Reform. Assumed health plan elections for members attaining age 65 were modified from 100% electing Signature 65 to 2/3rd electing Signature 65 and 1/3rd electing Freedom Blue (without Rx).
- **Demographic assumptions** – For members eligible for unreduced retirement benefits in SERS prior to age 60, the rate of retirement was increased to 15% for all ages. For members hired after December 31, 2010, the rates of retirement for ages 60-64 were modified if not eligible for unreduced retirement benefits in SERS. The mortality assumption was revised to reflect anticipated future improvements after 2010.
- **Other assumptions** – A 2% load of active liabilities and normal costs for medical and Rx benefits was added to reflect the possibility of supplemental employees transferring to regular employees subsequent to the valuation date. A trust expense assumption was also added.
- **Actuarial method** – The end of the attribution period was modified from first eligibility for benefits to expected retirement age.

## Other Supplementary Information

Pennsylvania Turnpike Commission  
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Other Supplementary Information

**Section Information**

For accounting purposes, the Pennsylvania Turnpike Commission maintains its records in three sections: Mainline, Oil Franchise, and Motor License. These sections are based on the types of revenues and the associated bond issues.

The Mainline section consists of income and expenses directly associated with the operations of the Turnpike System. In addition, all bonds pledged against this revenue source are included in this section.

The Oil Company Franchise section consists of revenues received from the Commission's allocation of the Commonwealth's Oil Company Franchise Tax. This revenue is pledged against the Oil Company Franchise Tax Debt as listed in Note 7.

The Motor License section consists of an annual income of \$28 million which has been provided to the Commission pursuant to Section 20 of Act 3 of the Commonwealth of Pennsylvania. This income is pledged against the Motor License Registration Fee Debt as listed in Note 7.

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Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Net Position**

	May 31, 2013			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
Assets and deferred outflows of resources				
Current assets:				
Cash and cash equivalents	\$ 130,010	\$ -	\$ -	\$ 130,010
Short-term investments	47,952	-	-	47,952
Accounts receivable	39,149	-	-	39,149
Accrued interest receivable	1,663	-	-	1,663
Inventories	16,871	-	-	16,871
Restricted current assets:				
Cash and cash equivalents	449,577	58,566	20,284	528,427
Short-term investments	214,369	21,448	6,097	241,914
Accounts receivable	1,110	4,290	-	5,400
Accrued interest receivable	2,283	1,135	137	3,555
Total current assets	902,984	85,439	26,518	1,014,941
Noncurrent assets:				
Long-term investments:				
Long-term investments unrestricted	197,127	-	-	197,127
Long-term investments restricted	372,599	133,653	24,724	530,976
Total long-term investments	569,726	133,653	24,724	728,103
Capital assets not being depreciated:				
Land and intangibles	271,310	-	-	271,310
Assets under construction	661,613	-	-	661,613
Capital assets being depreciated:				
Buildings	893,705	-	-	893,705
Improvements other than buildings	112,632	-	-	112,632
Equipment	549,578	-	-	549,578
Infrastructure	7,172,878	-	-	7,172,878
Total capital assets before accumulated depreciation	9,661,716	-	-	9,661,716
Less accumulated depreciation	4,829,814	-	-	4,829,814
Total capital assets after accumulated depreciation	4,831,902	-	-	4,831,902
Other assets:				
Deferred issuance costs	57,795	11,788	4,033	73,616
OPEB Asset	58,127	-	-	58,127
Other assets	26,728	-	-	26,728
Total other assets	142,650	11,788	4,033	158,471
Total noncurrent assets	5,544,278	145,441	28,757	5,718,476
Total assets	6,447,262	230,880	55,275	6,733,417
Deferred outflows of resources	60,435	-	56,934	117,369
Total assets and deferred outflows of resources	\$ 6,507,697	\$ 230,880	\$ 112,209	\$ 6,850,786

Pennsylvania Turnpike Commission  
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Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Net Position (continued)**

	May 31, 2013			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Liabilities and deferred inflows of resources</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 320,773	\$ 24,660	\$ 4,584	\$ 350,017
Current portion of debt	175,530	16,550	6,720	198,800
Unearned income	48,190	-	-	48,190
Total current liabilities	544,493	41,210	11,304	597,007
Noncurrent liabilities:				
Debt, less current portion, net of unamortized premium, and net of unamortized refunding loss	7,354,889	760,348	410,961	8,526,198
Other noncurrent liabilities	146,418	414	56,934	203,766
Total noncurrent liabilities	7,501,307	760,762	467,895	8,729,964
Total liabilities	8,045,800	801,972	479,199	9,326,971
Deferred inflows of resources	141,440	-	-	141,440
Total liabilities and deferred inflows of resources	8,187,240	801,972	479,199	9,468,411
<b>Net position</b>				
Net investment in capital assets	1,828,277	(761,520)	(413,648)	653,109
Restricted for construction purposes	-	182,099	46,658	228,757
Restricted for debt service	41,326	8,329	-	49,655
Unrestricted	(3,549,146)	-	-	(3,549,146)
Total net position	\$(1,679,543)	\$ (571,092)	\$ (366,990)	\$(2,617,625)



Pennsylvania Turnpike Commission  
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Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Revenues, Expenses and Changes in Net Position**

	May 31, 2013			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
Operating revenues:				
Net fares	\$ 811,542	\$ -	\$ -	\$ 811,542
Other	20,094	-	-	20,094
Total operating revenues	831,636	-	-	831,636
Operating expenses:				
Cost of services	411,572	894	18	412,484
Depreciation	311,735	-	-	311,735
Total operating expenses	723,307	894	18	724,219
Operating income (loss)	108,329	(894)	(18)	107,417
Nonoperating revenues (expenses):				
Investment earnings	27,624	2,106	318	30,048
Other nonoperating revenues	17,431	2,446	-	19,877
Act 44 payments to PennDOT	(450,000)	-	-	(450,000)
Interest and bond expense	(337,906)	(36,355)	(19,561)	(393,822)
Nonoperating expenses, net	(742,851)	(31,803)	(19,243)	(793,897)
Loss before capital contributions and special item	(634,522)	(32,697)	(19,261)	(686,480)
Capital contributions	10,274	59,562	28,000	97,836
Discontinued project	-	(51,009)	-	(51,009)
(Decrease) Increase in net position	(624,248)	(24,144)	8,739	(639,653)
Net position at beginning of year	(1,022,159)	(580,473)	(375,340)	(1,977,972)
Intersection transfers	(33,136)	33,525	(389)	-
Net position at end of year	\$(1,679,543)	\$ (571,092)	\$ (366,990)	\$(2,617,625)

Pennsylvania Turnpike Commission  
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Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Cash Flows**

	May 31, 2013			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Operating activities</b>				
Cash received from customer tolls and deposits	\$ 829,291	\$ -	\$ -	\$ 829,291
Cash payments for goods and services	(252,275)	(886)	(18)	(253,179)
Cash payments to employees	(143,900)	(392)	-	(144,292)
Cash received from other operating activities	7,706	-	-	7,706
<b>Net cash provided by (used for) operating activities</b>	<b>440,822</b>	<b>(1,278)</b>	<b>(18)</b>	<b>439,526</b>
<b>Investing activities</b>				
Proceeds from sales and maturities of investments	1,371,376	233,566	26,871	1,631,813
Interest received on investments	20,639	3,932	661	25,232
Purchases of investments	(1,214,333)	(218,159)	(33,862)	(1,466,354)
<b>Net cash provided by (used for) investing activities</b>	<b>177,682</b>	<b>19,339</b>	<b>(6,330)</b>	<b>190,691</b>
<b>Capital and related financing activities</b>				
Capital grants received	7,240	-	-	7,240
Cash proceeds from motor license grant	-	-	28,000	28,000
Cash proceeds from oil company franchise tax	-	60,285	-	60,285
Construction and acquisition of capital assets	(484,489)	(23,161)	-	(507,650)
Proceeds from sale of capital assets	1,765	-	-	1,765
Payments for bond and swap expenses	(1,202)	-	(338)	(1,540)
Payments for debt refundings	(69,525)	-	-	(69,525)
Payments for debt maturities	(19,645)	(15,850)	(6,395)	(41,890)
Interest paid on debt	(122,848)	(39,514)	(20,249)	(182,611)
Interest subsidy from Build America Bonds	16,735	2,446	-	19,181
Proceeds from debt issuances	473,667	-	-	473,667
<b>Net cash (used for) provided by capital and related financing activities</b>	<b>(198,302)</b>	<b>(15,794)</b>	<b>1,018</b>	<b>(213,078)</b>
<b>Noncapital financing activities</b>				
Cash payments to PennDOT	(450,000)	-	-	(450,000)
Payments for bond and swap expenses	(1,032)	-	-	(1,032)
Payments for debt maturities	(15,860)	-	-	(15,860)
Interest paid on debt	(160,512)	-	-	(160,512)
Proceeds from debt issuances	416,314	-	-	416,314
<b>Net cash used for noncapital financing activities</b>	<b>(211,090)</b>	<b>-</b>	<b>-</b>	<b>(211,090)</b>
Increase (Decrease) in cash and cash equivalents	209,112	2,267	(5,330)	206,049
Cash and cash equivalents at beginning of year	370,475	56,299	25,614	452,388
Cash and cash equivalents at end of year	<b>\$ 579,587</b>	<b>\$ 58,566</b>	<b>\$ 20,284</b>	<b>\$ 658,437</b>

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Cash Flows (continued)**

Year Ended May 31, 2013

	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Reconciliation of operating income to net cash provided by (used for) operating activities:</b>				
Operating income (loss)	\$ 108,329	\$ (894)	\$ (18)	\$ 107,417
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	311,735	-	-	311,735
Change in operating assets and liabilities:				
Accounts receivable	(2,370)	-	-	(2,370)
Inventories	2,705	-	-	2,705
Other assets	(28,061)	-	-	(28,061)
Accounts payable and accrued liabilities	42,194	(384)	-	41,810
Other noncurrent liabilities	6,290	-	-	6,290
Net cash provided by (used for) operating activities	<u>\$ 440,822</u>	<u>\$ (1,278)</u>	<u>\$ (18)</u>	<u>\$ 439,526</u>
<b>Reconciliation of cash and cash equivalents to the statements of net position:</b>				
Cash and cash equivalents	\$ 130,010	\$ -	\$ -	\$ 130,010
Restricted cash and cash equivalents	449,577	58,566	20,284	528,427
Total cash and cash equivalents	<u>\$ 579,587</u>	<u>\$ 58,566</u>	<u>\$ 20,284</u>	<u>\$ 658,437</u>

Pennsylvania Turnpike Commission  
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Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Cash Flows (continued)**

**Noncash activities**

The Commission recorded a net decrease of \$ 5.5 million in the fair value of its investments for the year ended May 31, 2013. (Decreases) Increases by section were: Mainline, \$(8.0) million; Oil Franchise, \$2.1 million and Motor License, \$0.4 million.

The Commission recorded \$8.2 million for the amortization of bond premium for the year ended May 31, 2013. Amortization by section was: Mainline, \$6.4 million; Oil Franchise, \$1.1 million and Motor License, \$0.7 million.

The Commission recorded \$25.6 million for the amortization of deferred refunding losses, amortization of bond issuance costs and amortization of swap agreement costs for the year ended May 31, 2013. Amortization by section was: Mainline, \$23.2 million; Oil Franchise, \$1.3 million and Motor License, \$1.1 million.

The Commission recorded an interest expense reduction of \$11.7 million in the Mainline section for the year ended May 31, 2013 related to GASB 53 entries.

The Commission has entered into contracts with the operators of service plaza restaurants and service stations to totally reconstruct several service plazas. The service plaza operators provide the capital for the reconstruction in exchange for lower rental rates. The Commission implemented GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements in fiscal year 2013 (including restatements of fiscal year 2012). The Commission recognized Mainline capital contribution revenues of \$3.4 million related to these arrangements for the year ended May 31, 2013. See Note 6 for further discussion on the service plazas.

The Commission and PennDOT entered into an agreement regarding ownership of overhead bridges that carry state roads. Per the agreement, once the Commission replaces these overhead bridges, and after final inspections and supplemental agreements are signed by both parties, ownership and maintenance responsibilities of the bridges are transferred from the Commission to PennDOT. The Commission did not transfer any assets to PennDOT during the fiscal year ended May 31, 2013.

The Commission records intersection activity related to revenue, expense, asset and liability transfer between its sections. Some of the intersection entries are related to cash transfers; others are noncash transfers as required. Net intersection transfers for the year ended May 31, 2013 were: from Mainline, \$33.1 million; to Oil Franchise, \$33.5 million; and from Motor License, \$0.40 million.

Pennsylvania Turnpike Commission  
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Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Net Position *(Restated)*<sup>1</sup>**

	May 31, 2012			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
Assets and deferred outflows of resources				
Current assets:				
Cash and cash equivalents	\$ 100,804	\$ -	\$ -	\$ 100,804
Short-term investments	25,545	-	-	25,545
Accounts receivable	36,254	-	-	36,254
Accrued interest receivable	2,252	-	-	2,252
Inventories	19,576	-	-	19,576
Restricted current assets:				
Cash and cash equivalents	269,671	56,299	25,614	351,584
Short-term investments	210,152	18,973	2,238	231,363
Accounts receivable	946	5,013	-	5,959
Accrued interest receivable	2,452	1,273	131	3,856
Total current assets	667,652	81,558	27,983	777,193
Noncurrent assets:				
Long-term investments:				
Long-term investments unrestricted	265,732	-	-	265,732
Long-term investments restricted	457,774	152,587	21,921	632,282
Total long-term investments	723,506	152,587	21,921	898,014
Capital assets not being depreciated:				
Land and intangibles	256,175	-	-	256,175
Assets under construction	864,474	-	-	864,474
Capital assets being depreciated:				
Buildings	832,592	-	-	832,592
Improvements other than buildings	95,198	-	-	95,198
Equipment	531,210	-	-	531,210
Infrastructure	6,704,803	-	-	6,704,803
Total capital assets before accumulated depreciation	9,284,452	-	-	9,284,452
Less accumulated depreciation	4,568,495	-	-	4,568,495
Total capital assets after accumulated depreciation	4,715,957	-	-	4,715,957
Other assets:				
Deferred issuance costs	54,811	12,415	4,176	71,402
OPEB asset	28,871	-	-	28,871
Other assets	25,541	-	-	25,541
Total other assets	109,223	12,415	4,176	125,814
Total noncurrent assets	5,548,686	165,002	26,097	5,739,785
Total assets	6,216,338	246,560	54,080	6,516,978
Deferred outflows of resources	110,751	-	87,767	198,518
Total assets and deferred outflows of resources	\$6,327,089	\$ 246,560	\$ 141,847	\$6,715,496

<sup>1</sup> Certain 2012 amounts were restated as discussed in Note 6.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Net Position (*Restated*)<sup>1</sup> (continued)**

	May 31, 2012			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Liabilities and deferred inflows of resources</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 317,906	\$ 32,341	\$ 5,556	\$ 355,803
Current portion of debt	105,030	15,850	6,395	127,275
Unearned income	40,834	-	-	40,834
Total current liabilities	463,770	48,191	11,951	523,912
Noncurrent liabilities:				
Debt, less current portion, net of unamortized premium, and net of unamortized refunding loss	6,582,340	776,351	417,470	7,776,161
Other noncurrent liabilities	194,635	2,491	87,766	284,892
Total noncurrent liabilities	6,776,975	778,842	505,236	8,061,053
Total liabilities	7,240,745	827,033	517,187	8,584,965
Deferred inflows of resources	108,503	-	-	108,503
Total liabilities and deferred inflows of resources	7,349,248	827,033	517,187	8,693,468
<b>Net position</b>				
Net investment in capital assets	2,169,923	(782,475)	(419,688)	967,760
Restricted for construction purposes	-	191,617	44,348	235,965
Restricted for debt service	27,226	10,385	-	37,611
Unrestricted	(3,219,308)	-	-	(3,219,308)
Total net position	\$(1,022,159)	\$ (580,473)	\$ (375,340)	\$(1,977,972)

<sup>1</sup> Certain 2012 amounts were restated as discussed in Note 6.

Pennsylvania Turnpike Commission  
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Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Revenues, Expenses and Changes in Net Position (*Restated*)<sup>1</sup>**

	May 31, 2012			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
Operating revenues:				
Net fares	\$ 780,798	\$ -	\$ -	\$ 780,798
Other	23,090	51	-	23,141
Total operating revenues	803,888	51	-	803,939
Operating expenses:				
Cost of services	386,497	964	45	387,506
Depreciation	300,777	-	-	300,777
Total operating expenses	687,274	964	45	688,283
Operating income (loss)	116,614	(913)	(45)	115,656
Nonoperating revenues (expenses):				
Investment earnings	10,582	16,823	647	28,052
Other nonoperating revenues	16,305	4,891	-	21,196
Act 44 payments to PennDOT	(450,000)	-	-	(450,000)
Capital assets transferred to PennDOT	(22,783)	-	-	(22,783)
Interest and bond expense	(312,116)	(36,923)	(18,955)	(367,994)
Nonoperating expenses, net	(758,012)	(15,209)	(18,308)	(791,529)
Loss before capital contributions	(641,398)	(16,122)	(18,353)	(675,873)
Capital contributions	11,172	63,235	28,000	102,407
(Decrease) Increase in net position	(630,226)	47,113	9,647	(573,466)
Net position at beginning of year	(453,024)	(567,353)	(384,129)	(1,404,506)
Intersection transfers	61,091	(60,233)	(858)	-
Net position at end of year	\$(1,022,159)	\$ (580,473)	\$ (375,340)	\$(1,977,972)

<sup>1</sup> Certain 2012 amounts were restated as discussed in Note 6.

Pennsylvania Turnpike Commission  
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Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Cash Flows**

	May 31, 2012			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Operating activities</b>				
Cash received from customer tolls and deposits	\$ 799,163	\$ -	\$ -	\$ 799,163
Cash payments for goods and services	(260,901)	(639)	(39)	(261,579)
Cash payments to employees	(139,204)	(513)	-	(139,717)
Cash received from other operating activities	9,598	51	-	9,649
<b>Net cash provided by (used for) operating activities</b>	408,656	(1,101)	(39)	407,516
<b>Investing activities</b>				
Proceeds from sales and maturities of investments	2,362,553	128,412	7,265	2,498,230
Interest received on investments	22,586	6,078	664	29,328
Purchases of investments	(2,095,197)	(83,437)	(9,544)	(2,188,178)
<b>Net cash provided by (used for) investing activities</b>	289,942	51,053	(1,615)	339,380
<b>Capital and related financing activities</b>				
Capital grants received	9,153	30	-	9,183
Cash proceeds from motor license grant	-	-	28,000	28,000
Cash proceeds from oil company franchise tax	-	61,897	-	61,897
Construction and acquisition of capital assets	(387,325)	(69,524)	-	(456,849)
Proceeds from sale of capital assets	862	-	-	862
Payments for bond and swap expenses	(355)	(240)	-	(595)
Payments for debt refundings	(345,745)	-	-	(345,745)
Payments for debt maturities	(40,740)	(15,195)	(6,095)	(62,030)
Interest paid on debt	(122,552)	(40,117)	(20,293)	(182,962)
Interest subsidy from Build America Bonds	17,496	4,891	-	22,387
Proceeds from debt issuances	167,906	-	-	167,906
<b>Net cash (used for) provided by capital and related financing activities</b>	(701,300)	(58,258)	1,612	(757,946)
<b>Noncapital financing activities</b>				
Cash payments to PennDOT	(450,000)	-	-	(450,000)
Payments for bond and swap expenses	(1,180)	-	-	(1,180)
Payments for debt maturities	(12,245)	-	-	(12,245)
Interest paid on debt	(137,788)	-	-	(137,788)
Proceeds from debt issuances	468,106	-	-	468,106
<b>Net cash used for noncapital financing activities</b>	(133,107)	-	-	(133,107)
Decrease in cash and cash equivalents	(135,809)	(8,306)	(42)	(144,157)
Cash and cash equivalents at beginning of year	506,284	64,605	25,656	596,545
Cash and cash equivalents at end of year	<u>\$ 370,475</u>	<u>\$ 56,299</u>	<u>\$ 25,614</u>	<u>\$ 452,388</u>



Pennsylvania Turnpike Commission  
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Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Cash Flows (continued)**

	Year Ended May 31, 2012			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Reconciliation of operating income to net cash provided by (used for) operating activities:</b>				
Operating income (loss)	\$ 116,614	\$ (913)	\$ (45)	\$ 115,656
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	300,777	-	-	300,777
Change in operating assets and liabilities:				
Accounts receivable	(2,975)	-	-	(2,975)
Inventories	3,973	-	-	3,973
Other assets	(25,328)	-	-	(25,328)
Accounts payable and accrued liabilities	10,111	(194)	6	9,923
Other noncurrent liabilities	5,484	6	-	5,490
Net cash provided by (used for) operating activities	<u>\$ 408,656</u>	<u>\$ (1,101)</u>	<u>\$ (39)</u>	<u>\$ 407,516</u>
<b>Reconciliation of cash and cash equivalents to the statements of net position:</b>				
Cash and cash equivalents	\$ 100,804	\$ -	\$ -	\$ 100,804
Restricted cash and cash equivalents	269,671	56,299	25,614	351,584
Total cash and cash equivalents	<u>\$ 370,475</u>	<u>\$ 56,299</u>	<u>\$ 25,614</u>	<u>\$ 452,388</u>

Pennsylvania Turnpike Commission  
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Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Cash Flows (continued)**

**Noncash activities**

The Commission recorded a net decrease of \$ 1.9 million in the fair value of its investments for the year ended May 31, 2012. (Decreases) Increases by section were: Mainline, \$(9.2) million; Oil Franchise, \$11.1 million and Motor License, \$0.0 million.

The Commission recorded \$6.0 million for the amortization of bond premium for the year ended May 31, 2012. Amortization by section was: Mainline, \$4.2 million; Oil Franchise, \$1.1 million and Motor License, \$0.7 million.

The Commission recorded \$23.0 million for the amortization of deferred refunding losses, amortization of bond issuance costs and amortization of swap agreement costs for the year ended May 31, 2012. Amortization by section was: Mainline, \$20.7 million; Oil Franchise, \$1.3 million and Motor License, \$1.0 million.

The Commission recorded an interest expense reduction of \$8.8 million in the Mainline section for the year ended May 31, 2012 related to GASB 53 entries.

The Commission has entered into contracts with the operators of service plaza restaurants and service stations to totally reconstruct several service plazas. The service plaza operators provide the capital for the reconstruction in exchange for lower rental rates. The Commission implemented GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements in fiscal year 2013 (including restatements of fiscal year 2012). The Commission recognized Mainline capital contribution revenues of \$1.8 million related to these arrangements for the year ended May 31, 2012. See Note 6 for further discussion on the service plazas.

In fiscal year 2012, the Commission wrote down the value of its transponder inventory in the Mainline section by \$4.6 million to reflect lower market costs.

The Commission and PennDOT entered into an agreement regarding ownership of overhead bridges that carry state roads. Per the agreement, once the Commission replaces these overhead bridges, and after final inspections and supplemental agreements are signed by both parties, ownership and maintenance responsibilities of the bridges are transferred from the Commission to PennDOT. The Commission transferred assets with a net book value of \$22.8 million from its Mainline section to PennDOT during the fiscal year ended May 31, 2012.

The Commission records intersection activity related to revenue, expense, asset and liability transfer between its sections. Some of the intersection entries are related to cash transfers; others are noncash transfers as required. Net intersection transfers for the year ended May 31, 2012 were: to Mainline, \$61.1 million; from Oil Franchise, \$60.2 million; and from Motor License, \$0.9 million.

Pennsylvania Turnpike Commission  
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Other Supplementary Information (continued)

**Schedules of Cost of Services Detail**

The following tables provide additional detail for the costs of services reported in the statements of revenues, expenses and changes in net position.

**Fiscal Year Ended May 31, 2013**

	<b>Mainline Operating</b>	<b>Mainline Capital</b>	<b>Total Mainline</b>	<b>Oil Franchise</b>	<b>Motor License</b>	<b>Total</b>
General & administrative	\$ 42,542	\$ 72,659	\$ 115,201	\$ 681	\$ 18	\$ 115,900
Operations safety & incident response	4,455	-	4,455	-	-	4,455
Service centers	24,480	-	24,480	-	-	24,480
Employee benefits	80,670	6,634	87,304	213	-	87,517
Fare collection	59,952	-	59,952	-	-	59,952
Maintenance	65,924	988	66,912	-	-	66,912
Facilities and energy mgmt operations	8,903	8,194	17,097	-	-	17,097
Turnpike patrol	36,171	-	36,171	-	-	36,171
Total cost of services	\$ 323,097	\$ 88,475	\$ 411,572	\$ 894	\$ 18	\$ 412,484

**Fiscal Year Ended May 31, 2012**

	<b>Mainline Operating</b>	<b>Mainline Capital</b>	<b>Total Mainline</b>	<b>Oil Franchise</b>	<b>Motor License</b>	<b>Total</b>
General & administrative	\$ 40,335	\$ 61,837	\$ 102,172	\$ 704	\$ 45	\$ 102,921
Operations safety & incident response	4,078	-	4,078	-	-	4,078
Service centers	25,570	-	25,570	-	-	25,570
Employee benefits	77,563	4,254	81,817	208	-	82,025
Fare collection	61,884	-	61,884	-	-	61,884
Maintenance	58,096	2,838	60,934	52	-	60,986
Facilities and energy mgmt operations	7,644	7,740	15,384	-	-	15,384
Turnpike patrol	34,658	-	34,658	-	-	34,658
Total cost of services	\$ 309,828	\$ 76,669	\$ 386,497	\$ 964	\$ 45	\$ 387,506

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## **APPENDIX C**

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

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## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

*The following sets forth the definitions of certain terms used in the Indenture and elsewhere in this Official Statement, and a summary of certain provisions of the Indenture. Reference should be made to the full text of the Indenture for a complete statement of all of these provisions and other provisions. Copies of the Indenture may be obtained as described in the forepart of this Official Statement. Capitalized terms used but not defined herein shall have the meanings set forth in the forepart of this Official Statement.*

### DEFINITIONS OF CERTAIN TERMS

“Additional Bonds” shall mean Bonds of any series including Additional Senior Bonds and Additional Subordinated Bonds authorized under the Indenture and duly executed, authenticated, issued and delivered pursuant to the provisions thereof, other than currently Outstanding Bonds. Such term shall include, without limitation, notes, commercial paper, mandatory tender bonds, bond and grant anticipation notes, variable rate bonds, capital appreciation bonds, obligations secured only as to regularly scheduled interest payments by the Tax Revenues and the Trust Estate and any other evidence of indebtedness which the Commission is legally authorized to issue under the Indenture.

“Additional Projects” shall mean the improvements, extensions and replacements to the Pennsylvania Turnpike System, other than the portions of the improvements, extensions and replacements which are financed or refinanced with the proceeds of Additional Bonds.

“Assumed Variable Rate” shall mean the maximum established rate for any Variable Rate Indebtedness then outstanding.

“Authenticating Agent” shall mean the Person or Persons designated and authorized to authenticate any series of Bonds or such Person designated by the Authenticating Agent to serve such function, and shall at this time be the Trustee with respect to the 2013 Bonds.

“Average Principal and Interest Requirements” shall mean, as to any Bonds under consideration, the sum of the Principal and Interest Requirements for the Fiscal Years contained in the period under consideration with respect to such Bonds divided by the number of fiscal years contained in such period. Any determination of the Average Principal and Interest Requirements with respect to a number of series of Bonds outstanding shall be made based on the combined Principal and Interest Requirements of all such Bonds at the time outstanding. The “period under consideration” shall mean the period beginning with the date of calculation and ending with the final maturity of Bonds under consideration.

“Balloon Indebtedness” shall mean a series of Bonds 25% or more of the principal of which matures on the same date and is not required by the documents governing such indebtedness to be amortized by payment or redemption prior to such date. If any series of Bonds consists partially of Variable Rate Indebtedness and partially of Fixed Rate Indebtedness, the portion constituting Variable Rate Indebtedness and the portion constituting Fixed Rate Indebtedness shall be treated as separate series for purpose of determining whether any such indebtedness constitutes Balloon Indebtedness.

“Bank” shall mean, as to any series of Bonds, each financial institution (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” shall mean 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).

“Bond” shall mean any bond issued under the provisions of the Indenture.

“Bond Counsel” shall mean any attorney or firm of attorneys whose experience in matters relating to the issuance of tax-exempt obligations is nationally recognized.

“Bond Insurer” shall mean, as to any series of Bonds, the bond insurer undertaking to insure such Bonds.

“Bond Owner”, “holder”, “owner” or “registered owner” shall mean the Person in whose name a Bond is registered on the books maintained by the Bond Registrar except as otherwise provided in the Indenture.

“Bond Registrar” shall mean, with respect to the 2013 Bonds, that Person which maintains the bond register or such other entity designated by the Bond Registrar to serve such function, and shall initially be the Trustee with respect to the 2013 Bonds.

“Business Day” shall mean 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 Commonwealth of Pennsylvania. With respect to the 2013 Bonds, Business Day means any day other than (i) a Saturday or Sunday, (ii) a day on which the Trustee, Paying Agent or banks and trust companies in New York, New York are authorized or required to remain closed, or (iii) a day on which the New York Stock Exchange is closed.

“Certificates of Deposit” shall mean negotiable or nonnegotiable certificates of deposit, time deposits or other similar banking arrangements issued by the Trustee or by any bank or trust company, including any depository hereunder, which has a combined capital and surplus of not less than \$200,000,000, to be fully secured by Government Obligations or direct and general obligations of the Commonwealth of Pennsylvania. Such security shall have an aggregate market value, exclusive of accrued interest, at all times at least equal to the amount of such Certificate of Deposit. Such security shall be deposited with a Federal Reserve Bank or with the trust department of the Trustee.

“Clearing Fund” shall mean the special fund created by the Indenture.

“Code” shall mean the Internal Revenue Code of 1986, as the same may be amended.

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

“Consultant” shall mean 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 not be a broker or agent with whom the Commission transacts business.

“Cost” as applied to any Project financed under the provisions of the Indenture, shall include, without intending thereby to limit or restrict any proper definition of such word under the provisions of the act authorizing such Project, all obligations and expenses and all items of cost which are set forth in the Indenture.

“Credit Facility” shall mean any letter of credit, line of credit, standby letter of credit, indemnity or surety or municipal bond 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 financial or insurance institution, to provide for or to secure payment of principal and/or purchase price of and/or interest on Bonds pursuant to the provisions of a Supplemental Indenture under which such Bonds are issued.



“Defeasance Securities” shall mean:

1. Cash,
2. U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series “SLGs”),
3. Direct obligations of the U.S. Treasury 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 the Federal Reserve Bank of New York,
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
  - a. U.S. Export-Import Bank
  - b. Farmers Home Administration  
Certificates of beneficial ownership
  - c. Federal Financing Bank
  - d. General Services Administration  
Participation certificates
  - e. U.S. Maritime Administration  
Guaranteed Title XI financing
  - f. U.S. Department of Housing and Urban Development  
Project Notes  
Local Authority Bonds  
New Communities Debentures - U.S. government guaranteed debentures U.S.  
Housing Notes and Bonds - U.S. government guaranteed public housing notes
  - g. U.S. Public Housing Notes and Bonds - U.S. government guaranteed public  
housing notes and bonds

“DTC” means The Depository Trust Company (a limited purpose trust company), New York, New York.

“Enabling Acts” shall have the meaning set forth in the Indenture.

“Event of Default” shall mean those events specified in the Indenture.

“Extraordinary Event” shall mean the amendment or repeal of Section 54AA or 6431 of the Code as such sections were added by Section 1531 of the American Recovery and Reinvestment Act of 2009 (H.R. 1) pertaining to “Build America Bonds”) if the effect of such amendment or repeal is to reduce or eliminate the Issuer Subsidy.

“Fiscal Year” means the fiscal year of the Commission, currently the 12-month period beginning on the first day of June of each calendar year and ending on the last day of May of the following calendar year.

“Fixed Rate Indebtedness” shall mean (i) any indebtedness other than Variable Rate Indebtedness and (ii) indebtedness which, except for this clause (ii), would be Variable Rate Indebtedness with respect to which the Commission has entered into an interest rate swap agreement with an entity which has an unsecured, uninsured and unguaranteed long-term obligation rated in one of its three highest long-term rating categories (without reference to such gradations such as “plus” or “minus”) by each Rating Agency which has assigned a rating both to such indebtedness and to such obligation and pursuant to which agreement the Commission makes interest payments based on one or more rates of interest each of which is established at a single numerical rate for the entire remaining term of such agreement, provided that such Variable Rate Indebtedness shall be deemed to be Fixed Rate Indebtedness only which such agreement remains in effect and if any counterparty thereto is not in default thereunder, and provided

further that, for purposes of determining whether the conditions set forth in the Indenture have been satisfied, such Variable Rate Indebtedness shall be deemed to be Fixed Rate Indebtedness only if the terms of such agreement provide that it will remain in effect as long as any Bond to which such agreement relates is Outstanding. Notwithstanding the foregoing, if two series of Bonds constituting Variable Rate Indebtedness, or one or more maturities within a series, are issued simultaneously with inverse floating interest rates providing a composite fixed interest rate for such Bonds taken as a whole, such Bonds shall constitute Fixed Rate Indebtedness.

“Government Obligations” shall mean direct obligations of, or obligations, the principal and interest of which are unconditionally guaranteed by, the United States of America.

“Historic Tax Revenues” shall mean Tax Revenues for any 12 consecutive calendar months within the preceding 24 months, with such adjustments as may be required by the Indenture.

“Indenture” shall mean the Indenture as amended and supplemented.

“Interest Payment Date” have the meaning, respect to the 2013 Bonds, described in the forepart of this Official Statement.

“Insurance Agreement” shall mean the Insurance and Reimbursement Agreement between the Bond Insurer for the 2003 Bonds and the Commission.

“Issuer Subsidy” means the 35% cash subsidy payment made by the United States Treasury to the Commission relating to the 2009B Bonds and the 2009E Bonds pursuant to Section 54AA or 6431 of the Code (as such Sections were added by Section 1531 of the American Recovery and Reinvestment Act of 2009 (H.R. 1) pertaining to “Build America Bonds”).

“1998 Bonds” shall mean collectively the \$310,475,000 Oil Franchise Tax Senior Revenue Bonds, Series A of 1998, and the \$228,405,000 Oil Franchise Tax Subordinated Revenue Bonds, Series B of 1998.

“Maximum Principal and Interest Requirements” shall mean, as to any Bonds under consideration, the maximum Principal and Interest Requirements for any succeeding Fiscal Year on account of the Bonds in question.

“Oil Franchise Tax” means the “oil company franchise tax for highway maintenance and construction” imposed by the Commonwealth pursuant to 75 Pa. C.S.A. Chap. 95.

“Oil Franchise Tax General Fund” shall mean the special fund created by the Indenture.

“Opinion of Counsel” shall mean an opinion or opinions at writing signed by an attorney who is, or a firm of attorneys at law which has a member who is, admitted to practice before the Supreme Court of the Commonwealth of Pennsylvania who may (except as otherwise expressly provided herein) be counsel to the Commission who renders the initial opinion to the purchaser of the Bonds, who shall not be unsatisfactory to the Trustee. If such counsel be an individual, he/she shall not be, and if such counsel be a partnership or professional corporation, it shall not have as a partner or employee an attorney at law who is, an officer or employee of the Commission, but such counsel may be regularly retained by or under contract with the Commission. Such opinion or opinions may contain such exceptions, qualifications and limitations as may be customary under the circumstances.

“Outstanding” means, when used with reference to 2013 Bonds, as of a particular date, all 2013 Bonds theretofore authenticated and delivered, except: (a) 2013 Bonds theretofore canceled by the Trustee or delivered to the Trustee for cancellation pursuant to the provisions hereof; (b) 2013 Bonds which are deemed to have been paid in accordance with the provisions hereof; and (c) 2013 Bonds in exchange for or in lieu of which other 2013 Bonds have been authenticated and delivered pursuant to the provisions hereof.

“Parity Swap Agreement” shall mean an interest rate swap agreement or other agreement of a type described in the Indenture which satisfies (a) the requirements established in the Indenture and (b) which qualifies as a “qualified derivative agreement” under the Insurance Agreement, in order that some or all of the amounts payable by the Commission or the Trustee pursuant to such agreement may be secured by the Tax Revenues on parity with the Bonds to which such agreement relates.

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

“Paying Agent” shall mean, with respect to the 2013 Bonds, initially the Manufacturers and Traders Trust Company, a New York state banking association.

“Pennsylvania Turnpike System” shall mean the turnpike system of the Commission, all extensions and improvements thereto and any additional projects which may be financed under the provisions of the Enabling Acts.

“Permitted Investments” (to the extent permitted by law) shall mean:

A. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

1. U.S. Export-Import Bank (Eximbank)  
Direct obligations or fully guaranteed certificates of beneficial ownership
2. Farmers Home Administration (FmHA)  
Certificates of beneficial ownership
3. Federal Financing Bank
4. Federal Housing Administration Debentures (FHA)
5. General Services Administration  
Participation certificates
6. Government National Mortgage Association (GNMA or “Ginnie Mae”)  
GNMA - guaranteed mortgage-backed bonds  
GNMA - guaranteed pass-through obligations  
(not acceptable for certain cash-flow sensitive issues.)
7. U.S. Maritime Administration  
Guaranteed Title XI financing
8. U.S. Department of Housing and Urban Development (HUD) Project Notes  
Local Authority Bonds  
New Communities Debentures - U.S. government guaranteed debentures  
U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System  
Senior debt obligations
2. Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”)  
Participation Certificates  
Senior debt obligations

3. Federal National Mortgage Association (FNMA or "Fannie Mae") Mortgage-backed securities and senior debt obligations
4. Student Loan Marketing Association (SLMA or "Sallie Mae") Senior debt obligations
5. Resolution Funding Corp. (REFCORP) obligations
6. Farm Credit System  
Consolidated systemwide bonds and notes

D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AA-Am-G; AAA-m; or AA-m and if rated by Moody's rated Ann, Aal or Aa2.

E. Certificates of Deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the holders of the Bonds must have a perfected first security interest in the collateral.

F. Certificates of Deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

G. Investment Agreements, including GIC's, Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to MBIA (Investment Agreement criteria is available upon request).

H. Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by S&P.

I. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.

J. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.

K. Repurchase Agreements for 30 days or less must follow the criteria set forth in the Indenture. Repurchase Agreements which exceed 30 days must be acceptable to the Bond Insurer.

L. Any other investments as approved by the applicable Bond Insurer.

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

"Pledged Bonds" shall mean a Bond purchased by the Paying Agent or Trustee 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.

"Principal and Interest Requirements" shall mean (i) the amount of principal and interest becoming due with respect to Bonds in a Fiscal Year, calculated by the Commission or by a Consultant, plus (ii) Reimbursement Obligations payable or estimated by the Commission to be payable in such Fiscal Year (but only to the extent they are not duplicative of such principal and interest), plus (iii) the excess, if any, of amounts payable or estimated by the Commission to be payable by the Commission in such Fiscal Year with respect to interest rate swap agreements (but only to the extent that such excess would not be recognized as a result of the application of the assumptions set forth below) over amounts payable to the Commission in such Fiscal Year pursuant to interest rate swap agreements. The following assumptions shall be used to determine the Principal and Interest Requirements becoming due in any Fiscal Year:

(a) there shall be excluded from Principal and Interest Requirements for all purposes hereof any amounts which are payable (other than upon acceleration) exclusively from a fund or account other than the Senior Bonds Debt Service Fund or the Subordinated Bonds Debt Service Fund or a Credit Facility fund created by a supplemental indenture on parity with either such fund;

(b) payments of principal or interest which are due on the first day of a Fiscal Year shall be assumed to be due on the last day of the immediately preceding Fiscal Year;

(c) in determining the principal amount due with respect to Bonds in each Fiscal Year (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) payment shall be assumed to be made in accordance with any amortization schedule established for such debt, including any scheduled redemption of Bonds on the basis of Accreted Amount, and for such purpose the redemption payment shall be deemed a principal payment;

(d) if any of the Outstanding series of Bonds constitutes Balloon Indebtedness or Balloon Indebtedness and Variable Rate Indebtedness or if Bonds then proposed to be issued would constitute Balloon Indebtedness or Balloon Indebtedness and Variable Rate Indebtedness, then such amounts as constitute Balloon Indebtedness shall be treated as if such Bonds were to be amortized in substantially equal annual installments of principal and interest over a term equal to the number of years then remaining to the final maturity of such Bonds; the interest rate used for such computation shall be: (i) in the case of Fixed Rate Indebtedness, the interest rate of such Bonds; and (ii) in the case of Variable Rate Indebtedness, the Assumed Variable Rate, provided that if the maximum interest rate payable by the Commission with respect to any or all Variable Rate Indebtedness has been limited pursuant to an interest rate swap agreement, then the interest rate to be used for the aforesaid computation with respect to the Variable Rate Indebtedness covered by such interest rate swap agreement shall not exceed the sum of (A) the maximum interest rate as so limited, and (B) the annual charges payable by the Commission pursuant to said Parity Swap Agreement, expressed as a percentage of the principal amount of the Variable Rate Indebtedness which is covered thereby, provided that if any or all of such Variable Rate Indebtedness then constitutes a Pledged Bond, the interest rate to be used for the aforesaid computation with respect to the principal amount of such Pledged Bond shall be 125% of the rate then applicable to the Commission's Reimbursement Obligation under its Reimbursement Agreement with the Bank in question;

(e) if any Outstanding Bond constitutes Tender Indebtedness or if any Bond then proposed to be issued would constitute Tender Indebtedness, then for purposes of determining the amounts of principal and interest due in any Fiscal Year on such Bond, the options or obligations of the owners of such Bonds to tender the same for purchase or payment prior to their stated maturity or maturities shall be treated as a principal maturity (but any such amount treated as a maturity shall not be eligible for treatment as Balloon Indebtedness) occurring on the first date on which owners of such Bonds may or are required to tender such Bonds, except that any such option or obligation to tender Bonds shall be ignored and not treated as a principal maturity if both (a) such Bonds are rated in one of the two highest long-term rating categories (without reference to gradations such as "plus" or "minus") by each Rating Agency which has assigned a rating to any such Outstanding Bond at the request of the Commission or such Bonds are rated in the highest short-term note or commercial paper rating category by each Rating Agency which has assigned a rating to any such Outstanding Bond at the request of the Commission, and (b) any obligation the Commission may have, other than its obligation on such Bonds, to reimburse any person for having extended a credit or liquidity facility or a bond insurance policy, or similar arrangement, shall be a Reimbursement Obligation with respect to an obligation incurred under and meeting the tests and conditions set forth in the Indenture;

(f) if any Bond proposed to be issued will be a Variable Rate Indebtedness, the interest rate on such Bond shall be assumed to be the Assumed Variable Rate, provided that if the maximum interest rate payable by the Commission with respect to any or all of such Bonds has been limited pursuant to an interest rate swap agreement, then the interest rate to be used for the aforesaid computation with respect to the Variable Rate Bonds covered by such interest rate swap agreement shall not exceed the sum of (A) the maximum interest rate as so limited, and (B) the annual charges payable by the Commission pursuant to said interest rate swap agreement, expressed as a percentage of the principal amount of the Variable Rate Bonds which is covered thereby, and provided further that if any or all of such Variable Rate Bonds then constitute a Pledged Bond, the interest rate to be used for the aforesaid computation with respect to the principal amount of such Pledged Bond shall be 125% of the rate then applicable to the Commission's Reimbursement Obligation under its Reimbursement Agreement with the Bank in question;

(g) if moneys or Government Obligations (or, if one or more Credit Facilities are in effect which assure the timely payment of the principal of and interest on all Outstanding Bonds and if the Banks providing such Credit Facilities so agree in a written instrument filed with the Trustee, other Permitted Investments) have been irrevocably deposited with and are held by the Trustee or another fiduciary to be used to pay principal and/or interest on any specified Bond or bonds or the fees and expenses of a Bank or a remarketing agent, then the principal and/or interest to be paid from such moneys, from Government Obligations (or other Permitted Investments, if permitted as described above) or from the earnings thereon shall be disregarded and not included in calculating Principal and Interest Requirements.

“Project” shall mean the application of the proceeds of the 2013 Bonds described in the forefront of this Official Statement and any additional projects or refundings which are authorized by the Enabling Acts.

“Qualified Financial Institution” shall mean (a) any U.S. domestic institution which is a bank, trust company, national banking association, a corporation, subject to register with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956; a member of the National Association of Securities Dealers, Inc. or corporation or any other entity whose payment obligations are guaranteed by any of the foregoing whose unsecured obligations or uncollateralized long term debt obligations (or such obligations of any guarantor thereof) 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 rated in the highest rating category by Rating Agency or whose unsecured obligations or uncollateralized long-term 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.

“Rating Agency” shall mean each nationally recognized securities rating agency then maintaining a rating on any of the Bonds at the request of the Commission, unless the context only applies the term to one series of Bonds, in which event it shall mean only such rating agency then maintaining a rating on such series of Bonds. Initially, “Rating Agency” means Moody's Investors Service, Inc. and Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. or their successors.

“Reimbursement Agreement” shall mean 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, including any security or pledge agreement entered into in connection therewith pursuant to which the Commission grants the Bank or Banks a security interest in any collateral to secure its obligations to the Bank or Banks.

“Reimbursement Obligation” shall mean an obligation of the Commission pursuant to a Reimbursement Agreement to repay any amounts drawn under a Credit Facility, to pay any interest on such drawn amounts pursuant to such Reimbursement Agreement and to pay any Bank Fee owed pursuant thereto.

“Revenue Fund” shall mean the special fund created by the provisions of the Indenture.

“Senior Bonds” shall mean the 2013A Bonds, the 2009A Bonds, the 2009B Bonds, the 2009C Bonds, Series A of the 2006 Senior Bonds, the Series A and Series C of the 2003 Senior Bonds, the Series A of the 1998 Senior Bonds and any Additional Senior Bonds issued under the Indenture which shall provide that such Senior Bonds are senior in right of payment and security to the Subordinated Bonds.

“Senior Bonds Debt Service Fund” shall mean the special fund created by the Indenture.

“Senior Bonds Sinking Fund” shall mean the special fund created by the Indenture.

“Sinking Fund” shall mean the Senior Bonds Sinking Fund and the Subordinated Bonds Sinking Fund.

“Special Record Date” shall mean the date established by the Trustee for the payment of interest on the 2013 Bonds not paid on a regularly scheduled Interest Payment Date.

“Subordinated Bonds” shall mean the 2013A Bonds, the 2009D Bonds, the 2009E Bonds, the Series B of the 2006 Subordinated Bonds, the Series B of the 2003 Subordinated Bonds, the Series B of the 1998 Subordinated Bonds and any Additional Subordinated Bonds which may be issued under the Indenture which shall provide that such Subordinated Bonds are junior in right of payment and security to the Senior Bonds.

“Subordinated Bonds Debt Service Fund” shall mean the special fund created by the Indenture.

“Subordinated Bonds Debt Service Reserve Fund” shall mean the special fund created by the Indenture.

“Subordinated Bonds Debt Service Reserve Requirement” shall mean that amount equal to one-half of the maximum Principal and Interest Requirements for any succeeding Fiscal Year on account of the Subordinated Bonds in question.

“Subordinated Bonds Sinking Fund” shall mean the special fund created by the Indenture.

“Swap Receipts” shall mean any payments payable by a Parity Swap Agreement Counterparty; provided that termination payments payable by such Parity Swap Agreement Counterparty shall be considered a Swap Receipt only to the extent, and at such time as, the Commission has determined that such payment (or portion thereof) will not be expended by the Commission to obtain a replacement Parity Swap Agreement.

“Tax Receipts” shall mean the amounts received by the Trustee from the Commonwealth and paid from the Oil Franchise Tax.

“Tax Revenues” shall mean the Tax Receipts or any receipts; revenues and other money received by the Trustee on or after the date of the Indenture from any tax or other source of funds from the Commonwealth in substitution and/or replacement of the Tax Receipts and 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, but excluding any moneys received by way of grant or contribution from any governmental agency or other entity specifically designated by the grantor or contributor for a particular purpose.

“Tender Indebtedness” shall mean any Bond or portion thereof a feature of which is an option, on the part of the Bond Owner, or an obligation under the terms of such Bond, to tender all or a portion of such Bond to the Commission, the Trustee, the Paying Agent or other fiduciary or agent for payment or purchase and requiring that such Bond or portion thereof be purchased if properly presented.

“Treasurer’s Certificate” shall mean a certificate signed by the Treasurer, Assistant Treasurer or Deputy Executive Director/Finance and Administration of the Commission containing the data specified in the Indenture.

“Trustee” shall mean the Trustee at the time in question, whether original or successor.

“2003 Bonds” shall mean collectively the \$124,730,000 Oil Franchise Tax Senior Revenue Bonds, Series A of 2003, the \$197,955,000 Oil Franchise Tax Subordinated Revenue Bonds, Series B of 2003, and the Oil Franchise Tax Senior Revenue Bonds aggregate principal amount of \$160,000,000 Series C of 2003.

“2006 Bonds” shall mean collectively the \$98,705,000 Oil Franchise Tax Senior Revenue Refunding Bonds, Series A of 2006, and the \$141,970,000 Oil Franchise Tax Subordinated Revenue Refunding Bonds, Series B of 2006.

“2009 Bonds” shall mean, collectively, the 2009A Bonds, the 2009B Bonds, the 2009C Bonds, the 2009D Bonds and the 2009E Bonds.

“2009A Bonds” shall mean the \$21,550,000 Oil Franchise Tax Senior Revenue Bonds, Series A of 2009 consisting of Oil Franchise Tax Senior Revenue Bonds, Subseries A-1 of 2009 (Refunding) and Oil Franchise Tax Senior Revenue Bonds, Subseries A-2 of 2009.

“2009B Bonds” shall mean the \$127,170,000 Oil Franchise Tax Senior Revenue Bonds, Series B of 2009 (Federally Taxable-Issuer Subsidy-Build America Bonds).

“2009C Bonds” shall mean the \$15,461,246 Oil Franchise Tax Senior Revenue Bonds, Series C of 2009.

“2009D Bonds” shall mean the \$31,560,000 Oil Franchise Tax Subordinated Revenue Bonds, Series D of 2009 consisting of Oil Franchise Tax Subordinated Revenue Bonds Subseries D-1 of 2009 (Refunding) and Oil Franchise Tax Subordinated Revenue Bonds, Subseries D-2 of 2009.

“2009E Bonds” shall mean the \$102,505,000 Oil Franchise Tax Subordinated Revenue Bonds, Series E of 2009 (Federally Taxable-Issuer Subsidy-Build America Bonds).

“Variable Rate Indebtedness” shall mean: (i) any indebtedness the interest rate applicable to which is established at the time of incurring of such indebtedness at a rate which can increase during the entire term thereof or will at some subsequent date be established at a rate which can increase during the entire term thereof; and (ii) indebtedness which, except for this clause (ii), would be Fixed Rate Indebtedness but with respect to which the Commission has entered into an interest rate swap agreement with an entity which (or the guarantor of whose obligation) has an unsecured, uninsured and unguaranteed long-term obligation rated in one of its three highest long-term rating categories (without regard to gradations such as “plus” or “minus”) by each Rating Agency which has assigned a rating both to such indebtedness and to such obligation and pursuant to which agreement the Commission makes interest payments based on a rate of interest which is not established at a single numerical rate for the entire remaining term of such agreement, provided that such Fixed Rate Indebtedness shall be deemed to be Variable Rate Indebtedness only while such agreement remains in effect and only if the counterparty thereto is not in default thereunder.

## **THE INDENTURE**

### ***Grant of Security Interest***

Pursuant to the Indenture, the Commission has granted a security interest in and pledged and assigned unto the Trustee (i) all Tax Revenues, (ii) the right of the Commission to receive the Commission Allocation and any amounts of the Commission Allocation actually received by the Commission, (iii) all monies deposited into accounts or funds created by the Indenture (other than the Rebate Fund), (iv) all Swap Receipts, (v) the Issuer Subsidy and (vi) all investment earnings on all monies held in accounts and funds established by the Indenture (other than the Rebate Fund) (all of these items shall collectively be known as the “Trust Estate”) as security for the payment of the Bonds and the interest thereon and as security for the satisfaction of any other obligation assumed by it in connection with such Bonds, including any Parity Swap Agreements, any Insurance Agreement and Reimbursement Obligations.



### ***Limitations on Issuance of Indebtedness***

The Commission covenants in the Indenture that it will not incur any indebtedness which is secured by the Tax Revenues while the Indenture is in effect except in accordance with the provisions of the Indenture.

### ***Issuance of Additional Bonds***

Additional Senior Bonds and Additional Subordinated Bonds may be issued under and secured by the Indenture for the purpose of paying the cost of all or any part of any Additional Project or for the purpose of refunding all or any portion of the Bonds then outstanding and, if elected by the Commission as hereinafter set forth, all or a portion of the expenses incurred by the Commission in connection with the issuance of such Bonds.

Before any such Bonds shall be authenticated by the Authenticating Agent and delivered by the Trustee, there shall be filed with the Trustee the following: (a) the documents required by the Indenture for issuance of Additional Bonds generally and for the particular type of Additional Bonds being issued; (b) a Supplemental Indenture executed by the Commission in an appropriate number of counterparts setting forth, subject to the provisions of the Indenture, the terms and provisions of such Additional Bonds; and (c) An opinion of Bond Counsel that the issuance of the Additional Bonds will not adversely affect the tax-exempt status of all outstanding Bonds.

Additional Bonds may be issued for the following purposes and subject to the following additional conditions:

#### ***Issuance of Additional Bonds for any Additional Projects***

Additional Senior Bonds and Additional Subordinated Bonds may be issued under and secured by the Indenture, to the extent from time to time permitted by law, at any time or times for the purpose of paying the cost of any Additional Project and for paying costs incurred in issuing such Additional Bonds and for necessary contributions to the Subordinated Bonds Debt Service Reserve Fund if Additional Subordinated Bonds are being issued.

Such Additional Bonds shall not be authenticated by the Authenticating Agent nor delivered by the Trustee, unless there shall be filed with the Trustee the documents required by the Indenture for issuance of Additional Bonds generally and unless there shall be filed with the Trustee a Treasurer's Certificate demonstrating and concluding that the Historic Tax Revenues were not less than 200% of the Maximum Principal and Interest Requirements on account of all Senior Bonds to be outstanding under the Indenture after the issuance of proposed Additional Senior Bonds and not less than 115% of the Maximum Principal and Interest Requirements on account of all Bonds to be outstanding under the Indenture after the issuance of Additional Subordinated Bonds.

In any computation of Historic Tax Revenues for purposes of the Indenture, if the rate or rates at which the Oil Franchise Tax was imposed or the percentage of Tax Receipts received by the Commission during all or any part of the period for which any such calculation is made shall be different from the rate or rates at which the Oil Franchise Tax is imposed or the percentage of Tax Receipts received by the Commission in effect at the time such calculation is made, there shall be added to or deducted from said Tax Revenues so calculated, any increase or decrease in the Tax Revenues for such period which would result from such different rate or rates or percentage.

#### ***Issuance of Additional Bonds for Refunding***

Additional Senior Bonds and Additional Subordinated Bonds may be issued under and secured by the Indenture, at any time or times, for the purpose of providing funds for refunding or advance refunding all of the outstanding Senior Bonds or Subordinated Bonds, respectively, of any series issued under the provisions of the Indenture, or any portion of the Bonds of any such series, including in each case the payment of any redemption premium thereon and the costs of issuance.

Before such Bonds shall be authenticated by the Authenticating Agent and delivered by the Trustee, there shall be filed with the Trustee the following: (a) the documents required by the Indenture for issuance of Additional Bonds generally; (b) in case all or a portion of such Bonds are to be issued for the purpose of redeeming Bonds prior to their stated maturity or maturities, such documents as shall be required by the Trustee to show that provision has been duly made for the redemption of such Bonds; and (c) a certificate of an independent public accountant verifying that the proceeds (excluding accrued interest, but including any premium and after deducting an amount equal to all expenses incurred by the Commission in connection with the issuance of such Bonds to the extent that said expenses are to be paid from such proceeds) of such refunding Bonds and any investment income earned thereon shall be not less than an amount sufficient to pay the principal of and the redemption premium, if any, on the Bonds to be refunded, and, if permitted by law and deemed necessary by the Commission, the payment of interest thereon to the date of redemption.

The Authenticating Agent and Trustee, however, shall not authenticate and deliver such Bonds unless they receive a certificate signed by the Treasurer or Assistant Treasurer of the Commission demonstrating, with respect to Additional Senior Bonds, that the percentage derived by dividing the amount of the Historic Tax Revenues by the Maximum Principal and Interest Requirements on Senior Bonds outstanding after delivery of such Additional Bonds shall be either (i) at least 200% or (ii) not less than the percentage obtained by dividing such amounts prior to delivery of such Additional Senior Bonds and with respect to Additional Subordinated Bonds, that the percentage derived by the amount of the Historic Tax Revenues by the Maximum Principal and Interest Requirements on Bonds outstanding after delivery of such Additional Subordinated Bonds shall be either (i) at least 115% or (ii) not less than the percentage obtained by dividing such amounts prior to delivery of such Additional Subordinated Bonds.

### ***Clearing Fund***

The Indenture creates a special fund, called the “2013 Clearing Fund,” which shall be held in trust by the Trustee for deposit and disbursement of the net proceeds of the sale of the 2013 Bonds.

### ***Revenue Fund***

The Indenture creates a special fund called the “Revenue Fund.” The moneys in the Revenue Fund shall be held by the Trustee in trust and applied as provided in the Indenture.

The Commission acknowledges in the Indenture that it has irrevocably directed the Commonwealth to transfer all Tax Receipts which the Commission is entitled to receive from the Commonwealth to the Trustee for deposit into the Revenue Fund. Notwithstanding the foregoing, the Commission covenants that any and all Tax Receipts or other Tax Revenues which it receives initially will be deposited into a segregated account of the Commission and will be transferred therefrom within one (1) Business Day following receipt, 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.

All sums received by the Commission from any other source for paying any part of the cost of a Project for which any Bonds have been or will be issued shall be deposited into a separate fund (which may or may not be held by the Trustee) established by the Commission for the particular Project.

### ***Senior Bonds Debt Service Fund***

The Indenture creates a special fund called the “Senior Bonds Debt Service Fund” which shall be held in trust by the Trustee until applied as provided in the Indenture. The Indenture creates special accounts within the “Senior Bonds Debt Service Fund” designated the “Interest Account,” the “Principal Account” and the “Insured Swap Payment Account.” All moneys held by the Trustee in the Senior Bonds Debt Service Fund shall be applied in accordance with the Indenture.

The Trustee shall withdraw from the Revenue Fund and deposit to the applicable Account in the Senior Bonds Debt Service Fund 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 of each calendar month, an amount which equals the amount necessary to pay, and for the purpose of paying, (i) one-sixth (1/6) of the interest due on the Senior Bonds on the next succeeding Interest Payment Date (or, in the case of the period from the date of issuance of the any Senior Bonds to the first Interest Payment Date for the applicable Senior Bond, a monthly amount equal to the product of the interest amount owed on such first Interest Payment Date divided by the number of months from the date of issuance of such Senior Bond to such first Interest Payment Date), which amount shall be deposited in the Interest Account, and (ii) any amount due to the Bond Insurer with respect thereto; provided, however, so long as an Extraordinary Event has not occurred, the Trustee may assume for purposes of such calculation, that the Issuer Subsidy will be received by the Commission and deposited in the 2009B Issuer Subsidy Fund prior to such Interest Payment Date with respect to the 2009B Bonds.

(2) On or before the last Business Day of each calendar month, an amount which equals one-twelfth (1/12) of the amount necessary to pay (or, in the case of the period from the date of issuance of the any Senior Bonds to the first date on which principal is due on such Senior Bonds a monthly amount equal to the product of the principal amount owed on such first principal maturity date divided by the number of months from the date of issuance of such Senior Bond to such first principal maturity date), and for the purpose of paying, the principal amount of any Senior Bonds maturing on the next succeeding maturity date occurring on or before the second Interest Payment Date following such deposit, which amount shall be deposited in the Principal Account; provided, however, that no deposit shall be made pursuant to this clause (2) on any date which would duplicate deposits are required to be made to the Senior Bonds Sinking Fund.

(3) On the day due pursuant to a Parity Swap Agreement, an amount necessary to pay the Insured Swap Payment, which amount shall be deposited in the Insured Swap Payment Account of the Senior Bonds Debt Service Fund.

(4) On the dates specified in any Supplemental Indenture relating to Additional Senior Bonds, 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 and the principal of such Additional Senior Bonds.

All of such withdrawals, deposits and applications shall be on the same order of priority.

In the event there is a deficiency in the amount required to be deposited into any account in the Senior Bonds Debt Service Fund in any month, the amount of such deficiency shall be added to the amount required to be deposited in to the appropriate account in the Senior Bonds Debt Service Fund in the following month.

The Trustee shall 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 on the Bonds. The Trustee shall likewise pay out of the Principal Account, from time to time, without further authorization from the Commission, and as the same shall become due and payable, the principal of the Senior Bonds, but only upon the presentation and surrender of the Senior Bonds. The Trustee shall pay out of the Insured Swap Payment Account, from time to time, without further authorization from the Commission, and, as the same shall become due and payable, the Insured Swap Payment under the Parity Swap Agreement.

If at the time the Trustee is to make a withdrawal from the Senior Bonds 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 to the credit of the following funds or accounts in the following order: the Oil Franchise Tax General Fund and the Senior Bonds Sinking Fund.

### ***Senior Bonds Sinking Fund***

The Indenture creates a special fund called the “Senior Bonds Sinking Fund” which shall be held in trust by the Trustee until applied as directed in the Indenture. Contemporaneously with, and on the same order of priority as, making deposits described under “Senior Bonds Debt Service Fund,” and while any Senior Bonds are outstanding, the Trustee shall transfer on or before the last Business Day of each calendar month from the Revenue Fund to the Senior Bonds Sinking Fund one-twelfth (1/12) of the principal amount required on the next succeeding mandatory redemption date as specified in the Senior Bonds occurring on or before the first Interest Payment Date following such deposit (or such lesser amount which, when added to the principal amount of Senior Bonds purchased by the Trustee during the Fiscal Year pursuant to the second succeeding paragraph, shall equal the above amount); and provided that if any Senior Bond which is subject to mandatory redemption is at any time redeemed pursuant to an Optional Redemption, as described in the Senior Bonds, the principal amount of Senior Bonds of each maturity so redeemed may be applied as a credit against the principal amount of Senior Bonds of such maturity which is subject to mandatory redemption at such time as the Commission shall direct.

On the dates specified in any Supplemental Indenture or indentures relating to Additional Senior Bonds, the Trustee shall transfer from the Revenue Fund the amounts required to be deposited on such dates to the credit of the sinking, purchase or analogous fund, if any, established for such Additional Senior Bonds.

The moneys at any time on deposit to the credit of the Senior Bonds Sinking Fund or to be deposited thereto from the Revenue Fund may be applied by the Commission to the purchase of Senior Bonds of the same maturity of Senior Bonds to be called for mandatory redemption from the Senior Bonds Sinking Fund, and such moneys shall be withdrawn by the Trustee and applied to the payment of the purchase price of Senior Bonds which the Commission may agree to purchase or has paid provided that such purchase price is not in excess of 100% of the principal amount thereof. At the time of any purchase of the Senior Bonds, the Trustee shall withdraw from the Interest Account of the Senior Bonds Debt Service Fund any amounts deposited therein for the payment of interest on the Senior Bonds so purchased. Any Bonds so purchased in lieu of redemption by the Commission shall be cancelled by the Trustee and no longer remain outstanding.

### ***Subordinated Bonds Debt Service Fund***

The Indenture creates a special fund called the “Subordinated Bonds Debt Service Fund” which shall be held in trust by the Trustee until applied as provided in the Indenture. The Indenture also creates two separate accounts in the Subordinated Bonds Debt Service Fund to be known as the “Interest Account” and the “Principal Account.”

After the withdrawals described above, the Trustee shall withdraw from the Revenue Fund and deposit to the applicable Account in the Subordinated Bonds Debt Service Fund 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 of each calendar month, an amount which equals the amount necessary to pay, and for the purpose of paying, (i) one-sixth (1/6) of the interest due on the Subordinated Bonds on the next succeeding Interest Payment Date (or, in the case of the period from the date of issuance of the any Subordinated Bonds to the first Interest Payment Date for the applicable Subordinated Bond, a monthly amount equal to the product of the interest amount owed on such first Interest Payment Date divided by the number of months from the date of issuance of such Subordinated Bond to such first Interest Payment Date), which amount shall be deposited in the Interest Account and (ii) any amount due to the Bond Insurer with respect thereto; provided, however, so long as an Extraordinary Event has not occurred, the Trustee may assume for purposes of such calculation, that the Issuer Subsidy will be received by

the Commission and deposited in the 2009E Issuer Subsidy Fund prior to such Interest Payment Date with respect to the 2009E Bonds.

(2) On or before the last Business Day of each calendar month an amount which equals one-twelfth (1/12) of the amount necessary to pay, and for the purpose of paying, the principal amount of any Subordinated Bonds maturing on the next succeeding maturity date (or, in the case of the period from the date of issuance of the any Subordinated Bonds to the first maturity date for the applicable Subordinated Bond, a monthly amount equal to the product of the principal amount owed on such first maturity date divided by the number of months from the date of issuance of such Subordinated Bond to such first maturity date), including any amounts due the Bond Insurer with respect thereto, which amount shall be deposited in the Principal Account; provided, however, that no deposit shall be made pursuant to this clause (2) on any date which would duplicate deposits are required to be made to the Subordinated Bonds Sinking Fund; and

(3) On the dates specified in any Supplemental Indenture relating to Additional Subordinated Bonds, 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 and the principal of such Additional Subordinated Bonds.

In the event there is a deficiency in the amount required to be deposited into any account in the Subordinated Bonds Debt Service Fund in any month, the amount of such deficiency shall be added to the amount required to be deposited in to the appropriate account in the Subordinated Bonds Debt Service Fund in the following

The Trustee shall 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 on the Bonds. The Trustee shall likewise pay out of the Principal Account, from time to time, without further authorization from the Commission, and as the same shall become due and payable, the principal of the Subordinated Bonds, but only upon the presentation and surrender of the Subordinated Bonds.

If at the time the Trustee is to make a withdrawal from the Subordinated Bonds 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 to the credit of the following funds or accounts in the following order: the Subordinated Bonds Debt Service Reserve Fund, the Oil Franchise Tax General Fund and the Subordinated Bonds Sinking Fund.

### ***Subordinated Bonds Sinking Fund***

The Indenture creates a special fund called the “Subordinated Bonds Sinking Fund” which shall be held in trust by the Trustee until applied as directed in the Indenture. After first having made the deposits into the Senior Bonds Debt Service Fund, the Senior Bonds Sinking Fund and contemporaneously with, and on the same order of the priority as, making the deposits described under “Subordinated Bonds Debt Service Fund,” while any Subordinated Bonds are outstanding, the Trustee shall transfer on or before the last Business Day of each calendar month from the Revenue Fund to the Subordinated Bonds Sinking Fund one-twelfth of the principal amount required on the next succeeding mandatory redemption date as specified in the Subordinated Bonds occurring on or before the first Interest Payment Date following such deposit (or such lesser amount which, when added to the principal amount of Subordinated Bonds purchased by the Trustee during the Fiscal Year pursuant to the second succeeding paragraph, shall equal the above amount); and provided that if any Subordinated Bond which is subject to mandatory redemption is at any time redeemed pursuant to an Optional Redemption, as described in the Subordinated Bonds, the principal amount of Subordinated Bonds of each maturity so redeemed may be applied as a credit against the principal amount of Subordinated Bonds of such maturity which is subject to mandatory redemption at such time as the Commission shall direct.

On the dates specified in any Supplemental Indenture or indentures relating to Additional Subordinated Bonds, the Trustee shall transfer from the Revenue Fund the amounts required to be

deposited on such dates to the credit of the sinking, purchase or analogous fund, if any, established for such Additional Subordinated Bonds.

The moneys at any time on deposit to the credit of the Subordinated Bonds Sinking Fund or to be deposited thereto from the Revenue Fund may be applied by the Commission to the purchase of Subordinated Bonds of the same maturity of Subordinated Bonds to be called for mandatory redemption from the Subordinated Bonds Sinking Fund, and such moneys shall be withdrawn by the Trustee and applied to the payment of the purchase price of Subordinated Bonds which the Commission may agree to purchase or has paid, provided that such purchase price is not in excess of 100% of the principal amount thereof. At the time of any purchase of the Subordinated Bonds, the Trustee shall withdraw from the Interest Account of the Subordinated Bonds Debt Service Fund any amounts deposited therein for the payment of interest on the Subordinated Bonds so purchased. Any Bonds so purchased in lieu of redemption by the Commission shall be cancelled by the Trustee and no longer remain outstanding.

#### ***Subordinated Bonds Debt Service Reserve Fund***

The Indenture creates a special fund called the “Subordinated Bonds Debt Service Reserve Fund” which is a common debt service reserve fund for all Subordinated Bonds under the Indenture. In each Fiscal Year after first having made the deposits into the Subordinated Bonds Debt Service Fund and the Subordinated Bonds Sinking Fund described above and while any Subordinated Bonds are outstanding the Trustee shall transfer from the Revenue Fund on or before the Business Day immediately preceding an Interest Payment Date to the credit of the Subordinated Bonds Debt Service Reserve Fund out of the balance if any remaining in the Revenue Fund the amount if any required to make the funds deposited in the Subordinated Bonds Debt Service Reserve Fund equal the Subordinated Bonds Debt Service Reserve Requirement. The Trustee shall also transfer the amount set forth in any Supplemental Indenture under which Subordinated Bonds are issued.

In the event the Trustee shall be required to withdraw funds from the Subordinated Bonds Debt Service Reserve Fund to restore a deficiency in the Subordinated Bonds Debt Service Fund or the Subordinated Bonds Sinking Fund, the amount of such deficiency shall be allocated pro rata among the accounts, any surety bond or policy and unallocated funds in the Subordinated Bonds Debt Service Reserve Fund that relate to the series of Subordinated Bonds for which payment is coming due on the next succeeding payment date on the basis of the ratio that the Subordinated Bonds Debt Service Reserve Requirement for each particular series of Bonds for which payment is coming due bears to the Subordinated Bonds Debt Service Reserve Requirement for all series of Bonds for which payment is coming due on the next succeeding payment date.

In lieu of the deposit of money into or the maintenance of required amounts in the Subordinated Bonds Debt Service Reserve Fund, the Commission may cause to be provided a surety bond or insurance policy as further described in the forepart of this Official Statement under “SECURITY FOR THE 2013 BONDS - Subordinated Bonds Debt Service Reserve Fund.”

Except as provided in the Indenture with respect to refunding Subordinated Bonds, moneys held for the credit of the Subordinated Bonds Debt Service Reserve Fund shall be used for the purpose of paying interest on, maturing principal and mandatory sinking fund redemption price of Subordinated Bonds whenever and to the extent that the moneys held for the credit of the Subordinated Bonds Debt Service Fund or any Subordinated Bonds Sinking Fund shall be insufficient for such purpose. If at any time the moneys and principal amount of any surety bond, insurance policy or letter of credit held for the credit of the Subordinated Bonds Debt Service Reserve Fund shall exceed the Subordinated Bonds Debt Service Reserve Requirement, such excess shall be transferred by the Trustee to the credit of the Revenue Fund or used to reduce the principal amount of any surety bond, insurance policy or letter of credit

#### ***Oil Franchise Tax General Fund***

The Indenture creates a special fund called the “Oil Franchise Tax General Fund” which shall be held in trust by the Trustee until applied as described-below. After first having made the deposits provided in the Indenture and described above and while any Bonds are Outstanding, the Trustee shall

transfer from the Revenue Fund on or before the Business Day immediately preceding an Interest Payment Date to the credit of the Oil Franchise Tax General Fund the balance, if any, after making the required deposits described above.

Except as otherwise provided in the Indenture, moneys held for the credit of the Oil Franchise Tax General Fund shall be withdrawn by the Trustee, without further authorization from the Commission, to make up deficiencies in any funds or accounts created under the Indenture, and absent any such deficiency, may be expended by the Commission, upon requisition to the Trustee, for any of the following purposes, with no one item having priority over any of the others, as long as such application of Oil Franchise Tax Receipts is permitted by law: (a) to purchase or redeem Bonds or any other obligations of the Commission; (b) to make payments into the Construction Fund; (c) to make improvements, extensions and replacements of the Pennsylvania Turnpike System; (d) to fund amounts payable by the Commission under a Parity Swap Agreement which are not Insured Swap Payments, such amounts shall be payable from the Oil Franchise Tax General Fund only if and to the extent that after such payment the Commission will have moneys available to pay debt service on the Senior Bonds for the next twelve (12) months; and (e) to further any lawful corporate purpose.

### ***Issuer Subsidy Funds***

The Fifth Supplemental Indenture created funds designated the “2009B Issuer Subsidy Fund” and “2009E Issuer Subsidy Fund” for deposit of the Issuer Subsidy relating to the 2009B Bonds and 2009E Bonds, respectively, and so long as no Event of Default has occurred and is continuing under the Indenture, for application solely to the payment of interest on the 2009B Bonds and 2009E Bonds, respectively.

Upon the occurrence of an Event of Default, funds on deposit in the 2009B Issuer Subsidy Fund shall be transferred to the Senior Bonds Debt Service Fund and funds on deposit in the 2009E Issuer Subsidy Fund shall be transferred to the Subordinated Bonds Debt Service Fund and applied as described herein.

### ***Depositories of Moneys, Security for Deposits and Investments of Moneys***

All moneys received by the Commission under the provisions of the Indenture shall be deposited with the Trustee or with one or more other bank or trust companies to be designated by the Commission with the approval of the Trustee (any such depository, including the Trustee, being herein called a “Depository”). All moneys deposited under the provisions of the Indenture with the Trustee or any other Depository shall be held in trust and applied only in accordance with the provisions of the Indenture, and shall not be subject to lien or attachment by any creditor of the Commission.

All moneys deposited with the Trustee or any other Depository under the Indenture shall be continuously and fully secured unless or until invested as provided in the Indenture for the benefit of the Commission and the holders of the Bonds, by Government Obligations or direct and general obligations of the Commonwealth of Pennsylvania or otherwise in accordance with the laws of the Commonwealth of Pennsylvania governing trust funds of public bodies. Such security shall have an aggregate market value exclusive of accrued interest at all times at least equal to the amount of moneys so deposited. Such security shall be deposited with a Federal Reserve Bank or with the corporate trust department of the Trustee.

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 such investments shall be made by the Trustee only upon the oral request of the Commission immediately confirmed in writing by a Commission Official specifying the account or fund from which moneys are to be invested and designating the specific investments to be acquired. Absent investment directions from the Commission, the Trustee may invest such balance in investments described in paragraph 0) of the definition of Permitted Investments.

All such investments made pursuant to the Indenture shall be subject to withdrawal or shall mature or be subject to redemption by the holder at not less than the principal amount thereof or the cost of acquisition, whichever is lower, not later than the earlier of (i) 15 years from the date of such investment or (ii) the date on which the moneys may reasonably be expected to be needed for the purpose of the Indenture. The foregoing provisions shall not prevent the Commission or the Trustee from selling such investments at less than the principal amount thereof or the cost of acquisition.

### ***Covenants as to Tax Revenues***

The Commission covenants in the Indenture that it will seek to enforce the pledge and appropriation of the Commonwealth with respect to the Oil Franchise Tax which is described in the recitals hereto, and it will petition the General Assembly for additional funds in the event that the Tax Revenues are inadequate to pay the amounts due hereunder.

The Trustee may and, upon receipt of written direction from the holders of not less than twenty-five percent (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 enforce the pledge and appropriation of the Commonwealth with respect to the Oil Franchise Tax which is described in the recitals hereto.

### ***Other Covenants of Commission***

Pursuant to the Indenture, the Commission has made the following additional covenants, among others, to the Trustee:

(a) To promptly pay the principal of 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 and any premium required for the retirement of said Bonds by purchase or redemption, according to the true intent and meaning thereof, but only from the Tax Revenues, which Tax Revenues are pledged by the Commission to the payment thereof in the manner and to the extent hereinabove particularly specified, and from the remainder of the Trust Estate.

(b) Not to create or suffer to be created any lien or charge upon the Tax Revenues, or any part thereof except the lien and charge of the Bonds secured by the Indenture and any Subordinated Indebtedness permitted pursuant to the Indenture.

(c) Until the Bonds secured by the Indenture and the interest thereon shall have been paid or provision for such payment shall have been made, not to use the Tax Revenues for any purpose other than as provided in the Indenture, and not enter into any contract or contracts or take any action by which the rights of the Trustee or of the Bondholders might be impaired or diminished. Notwithstanding the above, the Commission shall be permitted to incur Subordinated Indebtedness pursuant to the provisions of the Indenture.

(d) To keep accurate records of its receipt of Tax Revenues. Such records shall be open to the inspection of the holders of the Bonds and their agents and representatives.

(e) To make no investment or other use of the proceeds of 2013 Bonds which would cause such Bonds to be "arbitrage bonds" as that term is defined in Section 148 of the Code, and all applicable regulations promulgated with respect thereto; to comply with the requirements of the Code and applicable regulations throughout the term of the 2013 Bonds; and not to take any action, omit to take any action, or permit any other person to take any action or fail to take any action over which the Commission has control, which action or inaction would cause the interest on the 2013 Bonds to be subject to federal income tax to a greater extent than on the date of issuance of such Bonds.



### ***Financial Statements; Available Information***

The Commission also covenants in the Indenture, in each Fiscal Year, to cause an annual audit to be made of its books and account by an independent certified public accountant of recognized by and standing. Promptly thereafter, reports of such audit shall be filed with the Commission and the Trustee, and copies of such reports shall be mailed by the Commission to all holders of the Bonds who shall have filed their names and addresses with the Secretary and Treasurer of the Commission for such purpose. Each annual audit report shall set forth in respect of the preceding twelve-month period the findings of such certified public accountants whether Tax Revenues under the Provision for the Indenture have been applied in accordance with the provisions of the Indenture. Such audit reports shall be open to the inspection of the holders of the Bonds and their agents and representatives.

The Commission further covenants that it will cause any additional reports or audits to be made as required by law and that, as often as may be requested, it will furnish to the Trustee, and the holder of any Bond such other information concerning the Tax Revenues as any of them may reasonably request and as may be easily provided by the Commission.

### ***Events of Default***

The Indenture provides that each of the following events is declared an “event of default”:

(a) payment of the interest on, or principal and premium, if any, of any of the Bonds shall not be made when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise provided that the failure to make a payment with respect to a Subordinated Bond shall not constitute an event of default with respect to Senior Bonds; or

(b) the Commission shall for any reason be rendered incapable of fulfilling its obligations under the Indenture, including, without limitation, as a result of its existence being terminated or expiring; or

(c) The Commission shall (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian or the like for it or for all or a substantial part of its property, or (ii) admit in writing the inability to pay its debts generally as they become due, or (iii) make a general assignment for the benefit of creditors, or (iv) be adjudicated a bankrupt or insolvent, or (v) commence a voluntary case under the United States Bankruptcy Code or file a voluntary petition or answer seeking reorganization, an arrangement with Creditors or an order for relief or seeking to take advantage of any insolvency law or file an answer admitting the material allegations of a petition filed against it in any bankruptcy reorganization or insolvency proceeding, or action of the Commission shall be taken for the purpose of effecting any of the foregoing, or (vi) take any corporate action or other action to authorize any of the foregoing, or (vii) if without the application, approval or consent of the Commission, a proceeding shall be instituted in any court of competent jurisdiction, under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking in respect of the Commission an order for relief or an adjudication in bankruptcy, reorganization, dissolution, winding-up or liquidation, a composition or arrangement with creditors, a readjustment of debts, the appointment of a trustee, receiver, liquidator or custodian or the like of the Commission or of all or any substantial part of its assets or other like relief in respect thereof under any bankruptcy or insolvency law, and, if such proceeding is being contested by the Commission in good faith, the same shall (A) result in the entry of an order for relief or any such adjudication or appointment or (B) remain undismissed. and undischarged for a period of sixty (60) days;

(d) any proceeding shall be instituted, with the consent or acquiescence of the Commission, for the purpose of effecting a compromise between the Commission and its creditors or for the purpose of adjusting the claims of such creditors, pursuant to any federal or state statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable from the Tax Revenues; or

(e) the Commission shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in the Indenture and such default shall continue for thirty (30) days after written notice specifying such default and requiring same to be remedied shall have been given to the Commission by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the holders of not less than ten percent (10%) in principal amount of the Bonds then outstanding, provided, however, that if the default cannot be remedied within thirty (30) days and the Commission begins to diligently proceed in good faith to remedy said default, then said default shall not be deemed to be a continuing one if, and so long as, the Commission shall diligently and continuously attempt to prosecute the same to completion.

### ***Remedies***

Upon the happening and continuance of any event of default specified in (a) above with respect to the Senior Bonds, then and in every such case the Trustee may, and upon the written request of the holders of not less than twenty-five percent (25%) in principal amount of the Senior Bonds then Outstanding shall, by a notice in writing to the Commission, declare the principal of all of the Bonds then outstanding (if not then due and payable) to be due and payable immediately, and upon such declaration the same shall become and be immediately due and payable, anything contained in the Senior Bonds or in the Indenture to the contrary notwithstanding; provided, however, that if at any time after the principal of the Senior Bonds shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Indenture, moneys shall have accumulated in the Senior Bonds Sinking Fund sufficient to pay the principal of all matured Senior Bonds and all arrears of interest, if any, upon all the Senior Bonds then outstanding (except the principal of any Senior Bonds not then due by their terms and the interest accrued on such Senior Bonds since the last interest payment date), and the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee, and all other amounts then payable by the Commission hereunder shall have been paid or a sum sufficient to pay the same shall have been deposited with the appropriate trustee, and every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Senior Bonds or in the Indenture (other than a default in the payment of the principal of such Senior Bonds then due only because of a declaration under this Section) shall have been remedied to the satisfaction of the Trustee, then and in every such case the Trustee may, and upon the written request of the holders of not less than twenty-five percent (25%) in principal amount of the Senior Bonds not then due by their terms and then outstanding shall, by written notice to the Commission rescind and annul such declaration and its consequences but no such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon; and provided, further, that notwithstanding anything contained in the Indenture to the contrary

Upon the happening and continuance of any event of default specified in the Indenture, then and in every such case the Trustee may proceed, and upon the written request of the holders of not less than twenty-five percent (25%) in principal amount of the Bonds then outstanding shall proceed subject to the Indenture to protect and enforce its rights and the rights of the holders of the Bonds under the laws of Pennsylvania or under the Indenture by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant or agreement contained in the Indenture or in aid or execution of any power therein granted or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, shall deem reasonable or necessary to protect and enforce such rights.

In the enforcement of any remedy under the Indenture, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due from the Commission for principal, interest or otherwise under any of the provisions of the Indenture or of the Bonds and unpaid, with interest on overdue payments at the rate or rates of interest specified in such Bonds (to the extent that payment of such interest is enforceable under applicable law), together with any and all costs and expenses of collection and of all proceedings under the Indenture and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the holders of the Bonds and to recover and enforce judgment or decree against the Commission, but solely as provided

herein and in such Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect (but solely from moneys available for such purpose) in any manner provided by law, the moneys adjudged or decreed to be payable.

***Application of Funds: Senior Bonds***

If at any time the moneys in the Senior Bonds Debt Service Fund or the Senior Bonds Sinking Fund shall not be sufficient to pay the principal of or the interest on the Senior Bonds or an Insured Swap Payment as the same become due and payable (either by their terms or by acceleration of maturities under the Indenture), such moneys, together with any moneys then in the Subordinated Bonds Debt Service Fund and Subordinated Bonds Sinking Fund and any other moneys then available or thereafter becoming available for such purpose, whether through the exercise of the remedies provided for in the Indenture or otherwise, shall be applied as follows, subject to the payment of fees and other amounts owing to the Trustee pursuant to the Indenture:

(a) Unless the principal of all the Senior Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

FIRST: to the payment to the persons entitled thereto of all installments of interest then due (including any amount due to the Bond Insurer with respect thereto under the terms of the Insurance Agreement and any Insured Swap Payment), in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the person entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Senior Bonds;

SECOND: to the payment to the persons entitled thereto of the unpaid principal of any of the Senior Bonds which shall have become due (other than Senior Bonds called for redemption for the payment of which moneys are held pursuant to the provisions for the Indenture), in the order of their due dates, with interest on such Senior Bonds from the respective dates upon which they became due, and, if the amount available shall not be sufficient to pay in full the principal of Senior Bonds due on any particular date, together with such interest, then to the payment first of such interest, ratably according to the amount of such interest due on such date, and then to the payment of such principal, ratably according to the amount of such principal due on such date, to the persons entitled thereto without any discrimination or preference; and

THIRD: to the payment of the interest on and the principal of the Senior Bonds, to the purchase and retirement of Senior Bonds and to the redemption of Senior Bonds all in accordance with the provisions of the Indenture.

(b) If the principal of all the Senior Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Senior Bonds with interest thereon as aforesaid and any Insured Swap Payment then due and unpaid without preference or priority of principal interest or Insured Swap Payment over the other, or of any Senior Bond over any other Senior Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Senior Bonds.

(c) If the principal of all the Senior Bonds shall have been declared due and payable and if such declaration shall thereafter have been rescinded and annulled as described above, then, subject to the provisions of paragraph (b) above, in the event that the principal of all the Senior Bonds shall later become due or be declared due and payable, the moneys then remaining in and thereafter accruing to the Senior Bonds Debt Service Fund and the Senior Bonds Sinking Fund shall be applied in accordance with the provisions of paragraph (a) above.

### ***Application of Funds: Subordinated Bonds***

If at any time the moneys in the Subordinated Bonds Debt Service Fund or the Subordinated Bonds Sinking Fund shall not be sufficient to pay the principal of or the interest on the Subordinated Bonds as the same become due and payable (either by their terms or by acceleration of maturities under the Indenture), such moneys, together with any moneys then in the Subordinated Bonds Debt Service Fund and any other moneys then available or thereafter becoming available for such purpose, whether through the exercise of the remedies provided for in the Indenture or otherwise, shall be applied as follows, subject to the payment of fees and other amounts owing, to the Trustee pursuant to the Indenture:

(a) Unless the principal of all the Subordinated Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied, subject to the application of funds for the Senior Bonds described above:

FIRST: to the payment to the persons entitled thereto of all installments of interest then due (including any amount due to the Bond Insurer with respect thereto under the terms of the Insurance Agreement), in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the person entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Subordinated Bonds;

SECOND: to the payment to the persons entitled thereto of the unpaid principal of any of the Subordinated Bonds which shall have become due (other than Subordinated Bonds called for redemption for the payment of which moneys are held pursuant to the provisions for the Indenture), in the order of their due dates, with interest upon such Subordinated Bonds from the respective dates upon which they became due, and, if the amount available shall not be sufficient to pay in full the principal of Subordinated Bonds due on any particular date, together with such interest, then to the payment first of such interest, ratably according to the amount of such interest due on such date, and then to the payment of such principal, ratably according to the amount of such principal due on such date, to the persons entitled thereto without any discrimination or preference; and

THIRD: to the payment of the interest on and the principal of the Subordinated Bonds, to the purchase and retirement of Subordinated Bonds and to the redemption of Subordinated Bonds, all in accordance with the provisions of the Indenture.

(b) If the principal of all the Subordinated Bonds shall have become or shall have been declared due and payable all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Subordinated Bonds, with interest thereon as aforesaid, without preference or priority of principal over interest or of interest over principal or of any installment of interest over any other installment of interest or of any Subordinated Bond over any other Subordinated Bond ratably according to the amounts due respectively for principal and interest to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Subordinated Bonds.

(c) If the principal of all the Subordinated Bonds shall have been declared due and payable and if such declaration shall thereafter have been rescinded and annulled as described above, then, subject to the provisions of paragraph (b) above, in the event that the principal of all the Subordinated Bonds shall later become due or be declared due and payable, the moneys then remaining in and thereafter accruing to the Subordinated Bonds Debt Service Fund and the Subordinated Bonds Sinking Fund and the Subordinated Bonds Debt Service Reserve Fund shall be applied in accordance with the provisions of paragraph (a) above.

### ***Holders' Right to Direct Proceedings***

Subject to rights of the Bond Insurer as set forth in the Indenture, anything in the Indenture to the contrary notwithstanding, the holders of a majority in principal amount of the Bonds then outstanding with respect to which the event of default has occurred shall have the right, subject to the provisions of the Indenture noted above, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of 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 unjustly prejudicial to any holder of a Bond not a party to such direction. The Trustee may exercise any right or take any other action deemed proper by the Trustee which is not inconsistent with such direction.

No holder of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Indenture or for any other remedy thereunder unless such holder previously shall have given to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also the holders of not less than twenty-five percent (25%) in principal amount of the Bonds then outstanding with respect to which the event of default has occurred shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers hereinabove granted or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are declared in the Indenture in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Indenture or for any other remedy hereunder. It is understood and intended that no one or more holders of the Bonds hereby secured shall have any right in any manner whatever by this or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit of all holders of such outstanding Bonds.

### ***Notice of Default***

The Trustee shall mail to the registered owners of the Bonds then outstanding at their addresses as they appear on the registration books, written notice of the occurrence of any event of default set forth in clause (a) above under "Events of Default" within thirty (30) days after any such event of default shall have occurred. The Trustee shall not, however, be subject to any liability to any holder of a Bond by reason of its failure to mail any notice of default required by the Indenture.

### ***Supplemental Indentures Without Consent of Holders***

The Commission and the Trustee may, from time to time and at any time, enter into such indentures or agreements supplemental to the Indenture as shall not be inconsistent with the terms and provisions of the Indenture for any of the following purposes: (a) to cure any ambiguity or formal defect or omission in the Indenture or in any Supplemental Indenture, including without limitation defects which would, if not cured, cause the interest on any series of Bonds to be included in gross income for federal income tax purposes when such interest is not to be so includable; (b) grant to or confer upon the Trustee for the benefit of the holders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the holders or the Trustee; (c) to issue Additional Bonds pursuant to the Indenture; (d) to obtain maintain or upgrade the then current rating of the Bonds or to obtain a Credit Facility; provided, however, no amendment with respect to obtaining a Credit Facility shall grant to the provider of the Credit Facility a lien with respect to the Trust Estate superior to that of any holder; (e) to create a common Subordinated Bonds Debt Service Reserve Fund for all Subordinated Bonds, provided that each entity which has issued a letter of credit, surety bond or bond insurance policy as to any Subordinated Bonds for all or a portion of the Subordinated Bonds Debt Service Reserve Fund

shall have consented thereto, or (f) to make any other amendment which does not materially adversely affect the rights of the Trustee or of the holders.

### ***Supplemental Indentures with Consent of Holders***

Subject to the terms and provisions contained in the Indenture, including the rights of the Bond Insurer, and not otherwise, the holders of not less than a majority (more than fifty percent (50%)) in aggregate principal amount of the Senior Bonds then outstanding and the holders of not less than a majority in aggregate principal amount of the Subordinated Bonds then outstanding shall have the right, from time to time, anything contained in the Indenture to the contrary notwithstanding, to consent to and approve the execution by the Commission and the Trustee of such indenture or indentures supplemental to the Indenture as shall be deemed necessary or desirable by the Commission for the purpose of modifying, altering, amending, adding to or rescinding, in any particular manner, any of the terms or provisions contained in the Indenture or in any Supplemental Indenture; provided, however, that nothing in the Indenture contained shall permit, or be construed as permitting, (a) an extension of the maturity of the principal of or the interest on any Bond issued thereunder, or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of revenues ranking prior to or (except as to Additional Bonds to the extent provided in the Indenture) on a parity with the lien or pledge created by the Indenture, or (d) a preference or priority of any Senior Bond or Senior Bonds over any other Senior Bond or Bonds or any Subordinated Bond or Bonds over any other Subordinated Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Indenture. Nothing contained in the Indenture, however, shall be construed as making necessary the approval by holders of the execution of any Supplemental Indenture or agreement described above under “Supplemental Indentures Without Consent of Holders.”

### ***Defeasance***

If, when the Bonds shall have become due and payable in accordance with their terms or otherwise as provided in the Indenture or shall have been duly called for redemption or irrevocable instructions to call the Bonds for redemption shall have been given by the Commission to the Trustee, the whole amount of the principal and interest and the premium, if any, so due and payable upon all of the Bonds then outstanding shall be paid or there shall have been deposited with the Trustee or the Paying Agent an amount, evidenced by moneys or Defeasance Securities, certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and to bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom (likewise to be held in trust and committed, except as hereinafter provided), to be sufficient for the payment, at their maturities or redemption dates, of all principal, premium, if any, and interest on the Bonds to the date of maturity or redemption, as the case may be, and provision shall also be made for paying all other sums payable under the Indenture hereunder by the Commission, then and in that case the right, title and interest of the Trustee shall thereupon cease, determine and become void, and the Trustee in such case, on demand of the Commission, and upon receipt of an Opinion of Counsel stating in substance that all conditions precedent provided for in the Indenture relating to defeasance have been satisfied, shall release the Indenture 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 officer, board or body as may then be entitled by law to receive the same any surplus in any funds or accounts other than moneys held in the Rebate Fund or for redemption or payment of Bonds.

The Indenture provides that in the event that the principal and/or interest due on Bonds shall be paid by the Bond Insurer pursuant to a Bond Insurance Policy, such Bonds shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Commission, and the assignment and pledge of the Trust Estate and all covenants agreements and other obligations of the Commission to the registered owners of such Bonds shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of such registered owners

If the Commission deposits with the Trustee Defeasance Securities sufficient to pay the principal or redemption price of any particular Bond or Bonds becoming due, either at maturity or by call for

redemption or otherwise, together with all interest accruing thereon to the due date, interest on such Bond or Bonds shall cease to accrue on the due date and all liability of the Commission with respect to such Bond or Bonds shall cease. Thereafter, 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 funds so deposited for any claim of whatsoever nature with respect to such Bond or Bonds, and the Trustee shall hold such funds in trust for such holder or holders.

### ***Subordination***

The Subordinated Bonds shall be subordinated and junior in lien position and right of payment to the extent and in the manner hereinafter set forth, to all principal of, premium, if any, and interest on the Senior Bonds.

(a) No payment on account of principal of and premium, if any, or interest on such Subordinated Bonds shall be made from the Tax Revenues or any amounts in the Subordinated Bonds Debt Service Fund or Subordinated Bonds Sinking Fund, nor shall any Tax Revenues be applied to the purchase or other acquisition or retirement of such Subordinated Bonds, unless full payment of amounts due and payable on or prior to such payment date, whether at maturity, by acceleration or otherwise, for principal of and premium, if any, and interest on all Senior Bonds has been made or duly provided for in accordance with the terms of the Indenture. Notwithstanding the foregoing, no payment on account of principal of and premium, if any, or interest on such Subordinated Bonds shall be made from the Tax Revenues, nor shall any Tax Revenues be applied to the purchase or other acquisition or retirement of such Subordinated Bonds if at the time of such payment or application or immediately after giving effect thereto, there shall exist a default in the payment of principal of, and premium, if any, or interest on any Senior Bonds.

(b) Upon any dissolution or winding up or total or partial liquidation, reorganization or arrangement of the Commission, whether voluntary or involuntary or in bankruptcy, insolvency, receivership or other proceedings, all principal of, premium, if any, and interest due or to become due upon all Senior Bonds shall first be paid in full, or payment thereof provided for in accordance with the terms of the Senior Bonds, and any deficiency in any fund created under the Indenture has been satisfied, before any payment from the Tax Revenues is made on account of the Subordinated Bonds. In the event that, notwithstanding the foregoing provisions, any holder of Subordinated Bonds shall have received any payment or distribution of Tax Revenues or any amounts in the Subordinated Bonds Debt Service Fund or the Subordinated Bonds Sinking Fund, including any such payment or distribution which may be payable or deliverable by reason of the, payment of the Subordinated Bonds (a "Distribution"), if there exists a default in the payment of principal of, premium, if any, or interest on any Senior Bonds at the time of the Distribution then and in such event such Distribution shall be received and held in trust for the holders of the Senior Bonds and shall be paid over or delivered forthwith to the Trustee for the benefit of the holders of the Senior Bonds to the extent necessary to pay all such Senior Bonds in full after giving effect to any payment or distribution made to the holders of such Senior Bonds concurrently with the Distribution made to such holder of Subordinated Bonds.

(c) The provisions of (a) and (b) above are solely for the purpose of defining the relative rights of the Senior Bonds and the holders of Subordinated Bonds, and nothing herein shall impair, as between the Commission and the holders of the Subordinated Bonds the obligation of the Commission which is unconditional and absolute subject to the provisions of the Indenture to pay to the holders thereof the principal thereof and premium if any and interest thereon in accordance with its terms nor shall anything therein prevent the holders of the Subordinated Bonds from exercising all remedies otherwise permitted by applicable law or upon default thereunder subject to the rights under (a) and (b) above of the Senior Bonds, as the case may be, to receive cash property or securities otherwise payable or deliverable to the holders of the Subordinated Bonds.

### ***Rights of the Bond Insurer***

The Second Supplemental Indenture, Third Supplemental Indenture and Fifth Supplemental Indenture contain a number of provisions required by the Bond Insurer. Such provision, among other

things, grant the Bond Insurer the right to receive notices of certain events and other information, the right to consent to certain actions, acceleration rights, impose requirements for Permitted Investments, valuation, trustee related provisions, defeasance, the right to control certain remedies granted to the Owners of the 2003 Bonds, 2006 Bonds or the 2009A Bonds, as applicable, or the Trustee for the benefit of such Owner, and recognition as a third-party beneficiary thereunder. For the purposes of exercising certain voting rights under the Indenture, MBIA Insurance Corporation shall be deemed to be the Owner of the 2003 Bonds, Ambac Assurance Corporation shall be deemed to be the Owner of the 2006 Bonds, and Assured Guaranty Corp. shall be deemed the Owner of the 2009A Bonds.



**APPENDIX D**

**FORM OF OPINION OF CO-BOND COUNSEL**

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## APPENDIX D

### BELOW IS THE PROPOSED FORM OF OPINION OF CO-BOND COUNSEL EXPECTED TO BE DELIVERED IN CONNECTION WITH THE ISSUANCE OF THE 2013 BONDS

October 1, 2013

RE: Pennsylvania Turnpike Commission  
\$27,785,000 Oil Franchise Tax Senior Revenue Refunding Bonds, Series A of 2013  
\$32,035,000 Oil Franchise Tax Subordinated Revenue Refunding Bonds, Series B of 2013

To the Purchasers of the Bonds:

We have acted as Co-Bond Counsel to the Pennsylvania Turnpike Commission (the “Commission”) in connection with the issuance by the Commission of its \$27,785,000 Oil Franchise Tax Senior Revenue Refunding Bonds, Series A of 2013 (the “2013A Bonds”) and its \$32,035,000 Oil Franchise Tax Subordinated Revenue Refunding Bonds, Series B of 2013 (the “2013B Bonds,” and together with the 2013A Bonds, the “2013 Bonds”) on the date hereof. The 2013 Bonds are issued under and pursuant to an Act of the General Assembly of Pennsylvania approved July 18, 2007, P.L. 169, No. 44 (“Act 44”); various Acts of the General Assembly approved on several dates, including the Act of May 21, 1937, P. L. 774; 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; the Act of August 14, 1951, P. L. 1232; and the Act of September 30, 1985, P. L. 240 to the extent not repealed by Act 44 (collectively with Act 44, the “Enabling Acts”), a resolution of the Commission adopted on August 19, 2013 (the “Resolution”), and pursuant to and under a Trust Indenture dated as of August 1, 1998, between the Issuer and The Bank of New York Mellon Trust Company, N.A., as successor trustee, as amended and supplemented prior to the date hereof (the “Original Indenture”), and as further supplemented by the Sixth Supplemental Trust Indenture dated as of October 1, 2013 (the “Supplemental Indenture,” and together with the Original Indenture, the “Indenture”). Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in the Indenture.

The 2013 Bonds are fixed rate bonds dated their date of issuance and will bear interest from such date at the rates, and mature in the amounts and on the dates, set forth in the Official Statement of the Commission related to the 2013 Bonds. The 2013 Bonds will be issued only as fully registered bonds in denominations of \$5,000 and integral multiples of \$5,000 in excess thereof. The 2013 Bonds are subject to mandatory and optional redemption prior to maturity as more fully described in the Official Statement.

The 2013 Bonds are secured by a pledge of the “oil company franchise tax for highway maintenance and construction” pursuant to 75 Pa. C.S.A. Chap. 95 (the “OFT Act”) which is allocated to the Commission pursuant to 75 Pa. C.S.A. § 9511(h) (the “Commission Allocation”).

The proceeds of the 2013 Bonds will be used to finance the costs of: (i) refunding a portion of the Commission’s Oil Franchise Tax Senior Revenue Bonds, Series A of 2003 and Oil Franchise Tax Subordinated Revenue Bonds, Series B of 2003; and (ii) issuing the 2013 Bonds.

We have examined the proceedings relating to the authorization and issuance of the 2013 Bonds, including, among other things: (a) the Enabling Acts and the OFT Act; (b) a certified copy of the Resolution; (c) an executed copy of the Indenture; (d) the respective forms of the

2013 Bonds; (e) various certificates executed by the Commission and/or the Trustee including certificates as to the authentication and delivery of the 2013 Bonds and a certificate with regard to Sections 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended (the "Code"); (f) the opinion of Doreen A. McCall, Esquire, Chief Counsel to the Commission, on which we have relied; (g) the Form 8038-G of the Commission with respect to the 2013 Bonds; and (h) 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 our opinion, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to the original documents of all documents submitted to us as copies and the authenticity of certificates of public officials. As to any facts material to our opinion, we have assumed the validity of and have not undertaken to verify the factual matters set forth in such agreements, certificates and other documents by independent investigation, and we have relied on the covenants, warranties and representations made by the Commission and the Trustee in such certificates and in the Indenture. We have also assumed that the documents referred to herein have been duly authorized by all parties thereto other than the Commission and are, where appropriate, legally binding obligations of, and enforceable in accordance with their terms against, all such other parties.

Based upon and subject to the foregoing and the additional assumptions, qualifications and limitations set forth below, we are of the opinion that:

1. The Commission is a body corporate and politic, is validly existing under the laws of the Commonwealth of Pennsylvania (the "Commonwealth") and has the corporate power to execute and deliver the Supplemental Indenture, to carry out its obligations thereunder and to issue and deliver the 2013 Bonds.

2. The 2013 Bonds have been duly and validly authorized, executed, issued and delivered by the Commission, are valid and binding limited obligations of the Commission, payable as to principal, interest and all other obligations thereunder solely from and enforceable only against the revenues and receipts derived from the Trust Estate and any other properties and rights assigned or pledged under the Indenture as security for the debt evidenced by the 2013 Bonds, except as such enforcement may be limited by laws relating to bankruptcy, insolvency, reorganization, arrangement, moratorium or similar laws affecting creditors' rights generally and subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and to the exercise of judicial discretion in appropriate cases.

3. The Supplemental Indenture has been duly authorized, executed and delivered by the Commission and is enforceable against the Commission in accordance with its terms, except as such enforcement may be limited by laws relating to bankruptcy, insolvency, reorganization, arrangement, moratorium or similar laws affecting creditors' rights generally and subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and to the exercise of judicial discretion in appropriate cases.

4. The Indenture creates the valid pledge of and security interest in the Trust Estate (as defined therein) as it purports to create.

5. Pursuant to the OFT Act, the Commission Allocation has been appropriated by the Commonwealth and the payment of the Commission Allocation to the Commission by the Commonwealth does not require any further legislative appropriation or approval.

6. Under existing laws of the Commonwealth, the interest on the 2013 Bonds is free from Pennsylvania personal income taxation and Pennsylvania corporate net income taxation, but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the 2013 Bonds or the interest thereon.

7. Interest on the 2013 Bonds is excluded from gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion set forth in the preceding sentence is subject to the condition that the Commission complies with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the 2013 Bonds in order that interest thereon continues to be excluded from gross income for purposes of federal income taxation. The Commission has covenanted to comply with all such requirements. Failure to comply with certain of such requirements could cause the interest on the 2013 Bonds to be includable in gross income retroactive to the date of issuance of the 2013 Bonds. Interest on the 2013 Bonds is not treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes; however, we call to your attention that under the Code, to the extent that interest on the 2013 Bonds is a component of a corporate holder's "adjusted current earnings," a portion of that interest may be subject to the corporate alternative minimum tax. We express no opinion regarding any other federal tax consequences relating to the 2013 Bonds or the receipt of interest thereon.

We express no opinion herein as to any matter not set forth in the numbered sections above, including, without limitation, with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Preliminary Official Statement or Official Statement prepared in connection with the 2013 Bonds, including the appendices thereto, and make no representation that we have independently verified the contents thereof.

We call to your attention that the 2013 Bonds do not pledge the general credit or taxing power of the Commonwealth or any political subdivision, agency or instrumentality of the Commonwealth, nor shall the Commonwealth or any political subdivision, agency or instrumentality thereof be liable for the payment of the principal of or interest on the 2013 Bonds (other than the Commission, to the limited extent described in the Indenture).

These opinions are rendered on the basis of federal law and the laws of the Commonwealth as enacted and construed on the date hereof.

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. This opinion is rendered and may be relied upon solely in connection with the transactions contemplated hereby and may not be relied upon for any other purpose.

Very truly yours,

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