

In the opinion of Bond Counsel, interest on the 2004A Bonds (including any original issue discount properly allocable to an owner thereof) is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, subject to the conditions described in "TAX EXEMPTION AND OTHER TAX MATTERS" herein. Interest on the 2004A Bonds will not be a specific preference item for purposes of the individual and corporate alternative minimum taxes; however, such interest may be subject to certain other federal taxes affecting corporate holders of the 2004A Bonds. Under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date hereof, the 2004A Bonds are exempt from Pennsylvania personal property taxes and the interest on the 2004A Bonds is exempt from Pennsylvania income tax and Pennsylvania corporate net income tax. For a more complete discussion see "TAX EXEMPTION AND OTHER TAX MATTERS" herein.

\$269,245,000

**PENNSYLVANIA TURNPIKE COMMISSION
TURNPIKE REVENUE BONDS
SERIES A OF 2004**

Dated: June 1, 2004

Due: December 1, as shown herein

The Pennsylvania Turnpike Commission Turnpike Revenue Bonds, Series A of 2004 (the "2004A Bonds") are being issued pursuant to Supplemental Trust Indenture No. 6 dated as of June 1, 2004 (the "Supplemental Indenture No. 6") between the Pennsylvania Turnpike Commission (the "Commission") and Wachovia Bank National Association, as Trustee (the "Trustee") under an Amended and Restated Trust Indenture dated as of March 1, 2001 between the Commission and the Trustee (as amended and supplemented, the "Indenture").

The 2004A 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. Individual purchases of 2004A Bonds will be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry only form. Purchasers of 2004A Bonds will not receive bonds representing their beneficial ownership in the 2004A Bonds but will receive a credit balance on the books of their respective DTC Participants or DTC Indirect Participants. The 2004A Bonds will be transferable or exchangeable to another nominee of The Depository Trust Company or as otherwise described herein.

Interest on the 2004A Bonds, which is payable on June 1 and on December 1 of each year, commencing December 1, 2004, and principal of the 2004A Bonds, is payable by the Trustee to Cede & Co., and such interest and principal payments are to be disbursed to the beneficial owners of 2004A Bonds through their respective DTC Participants or DTC Indirect Participants. The 2004A Bonds are subject to optional redemption prior to maturity as described herein.

Payment of the principal of and interest on the 2004A Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the 2004A Bonds. See BOND INSURANCE.

Ambac

THE 2004A BONDS ARE LIMITED OBLIGATIONS OF THE COMMISSION AND SHALL NOT BE DEEMED TO BE A DEBT OF THE COMMONWEALTH OF PENNSYLVANIA (THE "COMMONWEALTH") OR A PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH, BUT THE 2004A BONDS SHALL BE PAYABLE SOLELY FROM THE TRUST ESTATE (AS DEFINED HEREIN) WHICH CONSISTS PRIMARILY OF TOLLS FROM THE SYSTEM (AS DEFINED HEREIN). THE COMMONWEALTH IS NOT OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THE PAYMENT OF THE 2004A BONDS. THE COMMISSION HAS NO TAXING POWER.

The maturity dates, interest rates and approximate yields on the 2004A Bonds are set forth on the inside front cover page hereof.

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.

JPMorgan

**Citigroup
Goldman, Sachs & Co.
Merrill Lynch & Co.**

**Commonwealth Securities and Investments, Inc.
Janney Montgomery Scott LLC
Morgan Stanley
Wachovia Bank, National Association
UBS Financial Services Inc.**

**First Security Investments, Inc.
Lehman Brothers
RBC Dain Rauscher, Inc.**

The 2004A Bonds are being offered when, as and if issued and accepted by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, to certain legal matters being passed upon by Dilworth Paxson LLP, Philadelphia, Pennsylvania, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Underwriters by Cohen & Grigsby, P.C. of Pittsburgh, Pennsylvania, Counsel for the Underwriters. It is anticipated that the 2004A Bonds will be available for delivery in New York, New York on or about June 8, 2004.

\$269,245,000
PENNSYLVANIA TURNPIKE COMMISSION
TURNPIKE REVENUE BONDS
SERIES A OF 2004

MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS

| <u>Year</u> <u>(December 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Yield</u> | <u>Year</u> <u>(December 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Yield</u> |
|------------------------------------|-----------------------------------|--------------------------------|--------------|------------------------------------|-----------------------------------|--------------------------------|--------------|
| 2018 | \$1,200,000 | 5.25% | 4.61% * | 2024 | \$1,525,000 | 5.25% | 4.97% * |
| 2019 | 1,215,000 | 5.25 | 4.68 * | 2029 | 9,325,000 | 5.00 | 5.13 |
| 2020 | 1,230,000 | 5.25 | 4.74 * | 2031 | 59,610,000 | 5.50 | 4.98 * |
| 2021 | 1,300,000 | 5.25 | 4.80 * | 2032 | 60,495,000 | 5.25 | 5.17 * |
| 2022 | 1,375,000 | 5.25 | 4.87 * | 2034 | 130,525,000 | 5.00 | 5.18 |
| 2023 | 1,445,000 | 5.25 | 4.92 * | | | | |

(Plus Accrued Interest)

* Priced to the December 1, 2014 optional redemption date at a redemption price of 100%.

PENNSYLVANIA TURNPIKE COMMISSION

COMMISSIONERS

MITCHELL RUBIN
Chairman

TIMOTHY J. CARSON
Vice Chairman

J. WILLIAM LINCOLN
Secretary-Treasurer

PASQUALE T. DEON, SR.

ALLEN BIEHLER

JOSEPH G. BRIMMEIER
Chief Executive Officer

KEVIN F. LONGENBACH
Chief Operating Officer

J. BLAIR FISHBURN
Chief Financial Officer

ALEXANDER R. JANSEN
Chief Engineer

WILLIAM A. CHESNUTT
Chief Counsel

WACHOVIA BANK NATIONAL ASSOCIATION
Trustee and Authenticating Agent

CONSULTANTS

HOPKINS & COMPANY
Financial Advisor

MICHAEL BAKER, JR., INC.
Consulting Engineer

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 2004A 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.

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| INTRODUCTION | 1 |
| Pennsylvania Turnpike System | 1 |
| Revenue Sources of The Commission | 1 |
| 2004A Bonds | 2 |
| Security | 2 |
| Bond Insurance | 3 |
| Redemption | 3 |
| Book-Entry Only | 3 |
| Plan of Finance | 3 |
| DESCRIPTION OF THE 2004A BONDS | 3 |
| General | 3 |
| Redemption Prior to Maturity | 4 |
| PLAN OF FINANCING | 5 |
| ESTIMATED SOURCES AND USES OF FUNDS | 5 |
| BOOK-ENTRY ONLY SYSTEM | 5 |
| SECURITY FOR THE 2004A BONDS | 7 |
| Rate Covenant | 8 |
| Revenue Fund | 9 |
| Operating Account | 9 |
| Debt Service Fund | 10 |
| Reserve Maintenance Fund | 10 |
| Debt Service Reserve Fund | 11 |
| General Reserve Fund | 12 |
| BOND INSURANCE | 12 |
| THE COMMISSION | 14 |
| Executive Personnel | 15 |
| THE PENNSYLVANIA TURNPIKE | 15 |
| Background | 15 |
| Mainline Section, Northeast Extension, Mon/Fayette Expressway and Southern Beltway | 15 |
| Interchanges and Service Areas | 16 |
| Toll Schedule and Rates | 16 |
| Five-Year Financial History | 17 |
| Budget Process | 18 |
| Financial Policies and Guidelines | 18 |
| E-ZPass | 19 |
| Slip Ramps | 19 |
| Personnel and Labor Relations | 20 |
| Retirement Plan | 20 |

| | |
|---|----|
| CAPITAL IMPROVEMENT PROGRAM | 20 |
| Act 61 Projects | 20 |
| Mon/Fayette Expressway and Southern Beltway | 20 |
| Ten Year Capital Plan | 21 |
| Capacity Needs Study | 23 |
| AUDITED FINANCIAL STATEMENTS | 23 |
| CONTINUING DISCLOSURE | 23 |
| RELATIONSHIPS OF CERTAIN PARTIES | 24 |
| UNDERWRITING | 24 |
| RATINGS | 24 |
| LITIGATION | 25 |
| LEGAL MATTERS | 25 |
| FINANCIAL ADVISOR | 25 |
| TAX EXEMPTION AND OTHER TAX MATTERS | 25 |
| Federal Tax Exemption | 25 |
| Original Issue Discount; Original Issue Premium | 26 |
| Pennsylvania Tax Exemption | 26 |
| MISCELLANEOUS | 27 |

| | |
|------------|--|
| APPENDIX A | AUDITED 2003 AND 2002 FINANCIAL STATEMENTS |
| APPENDIX B | SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE |
| APPENDIX C | FORM OF OPINION OF BOND COUNSEL |
| APPENDIX D | SPECIMEN BOND INSURANCE POLICY |

[This page intentionally left blank.]

OFFICIAL STATEMENT

\$269,245,000

**PENNSYLVANIA TURNPIKE COMMISSION
TURNPIKE REVENUE BONDS
SERIES A OF 2004**

INTRODUCTION

This Official Statement, which includes the cover page, inside front cover page and the Appendices hereto, is furnished by the Pennsylvania Turnpike Commission (the "Commission") in connection with the issuance of \$269,245,000 aggregate principal amount of Pennsylvania Turnpike Commission, Turnpike Revenue Bonds, Series A of 2004 (the "2004A Bonds"). 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.

Pennsylvania Turnpike System

The Pennsylvania Turnpike System consists of (1) an east-west mainline section (the "Mainline Section") traversing the southern portion of Pennsylvania and connecting with the Ohio Turnpike at the System's western terminus and the New Jersey Turnpike at the System's eastern terminus, (2) a north-south section (the "Northeast Extension") which connects the Mainline Section at Plymouth Meeting with the area north of Scranton, Pennsylvania, where it connects with Interstate Route 81, and (3) the completed portion of the Mon/Fayette Expressway (the "Mon/Fayette Expressway") on which tolls are being collected. The total length of the Mainline Section is approximately 360 miles and the total length of the Northeast Extension is approximately 110 miles. Three projects constructed as part of the Mon/Fayette Expressway are in operation. One is a six-mile section of toll road between Interstate Route 70 and U.S. Route 40 in Washington County. The second is an eight mile section of toll road from the Pennsylvania/West Virginia border to Fairchance, which is located just south of Uniontown. The third is a 17 mile section of toll road from Interstate Route 70 in Washington County to Pennsylvania Route 51 in Allegheny County. These are now part of the System (as defined herein) until the Commission elects otherwise. When completed, the Mon/Fayette Expressway will extend from Interstate Route 68 in West Virginia to Interstate Route 376 near Pittsburgh, a distance of 65 miles. A North-South connection, known as the Beaver Valley Expressway, is approximately 16 miles in length and intersects with the Turnpike Mainline. The Amos K. Hutchinson Bypass is approximately 13 miles in length and adjoins the Turnpike Mainline near the New Stanton Interchange. There are 39 interchanges connecting the System (as defined herein) with traffic arteries and population centers and 22 service plazas providing automotive and restaurant services. (Such roads, together with any other roads for which the Commission has operational responsibility and is collecting Tolls, unless the Commission identifies a particular road other than the Mainline Section and the Northeast Extension as not being part of the System, constitute the "System".)

Revenue Sources of The Commission

Tolls. All rates, rents, fees, charges, fines and other income derived by the Commission from the vehicular usage of the System and all rights to receive the same (the "Tolls", as defined in the Indenture) constitute one of the Commission's three principal streams of revenues. The Tolls are pledged to secure the 2004A Bonds and the Commission's outstanding bonds (collectively, the "Turnpike Revenue Bonds" or the "Bonds") which will be subject to or may be issued under the terms of the Indenture. Upon completion of the issuance of the 2004A Bonds, approximately \$1,356,945,000 of Turnpike Revenue Bonds will be outstanding. The 2004A Bonds will be secured, together with all other outstanding Bonds and other Parity Obligations (as herein defined), by a pledge of the Tolls. The Commission may in the future, under the terms of the Indenture, identify in writing certain roads, other than the Mainline Section and the Northeast Extension, as not being part of the System for the purposes of the Indenture. The Tolls are *not* pledged to secure the Oil Franchise Tax Revenue Bonds (as defined below) and are *not* pledged to secure the Registration Fee Revenue Bonds (as defined below).

Oil Franchise Tax Revenues. The Commission's second principal stream of revenues consists of that portion of the Commonwealth's oil franchise tax revenues (the "Oil Franchise Tax Revenues") allocated by statute to the Commission or the holders of the Commission's Oil Franchise Tax Revenue Bonds (the "Oil Franchise Tax Revenue Bonds"), a total of \$626,485,000 of which are issued and outstanding. The Oil Franchise Tax Revenue Bonds, the proceeds of which were spent on portions of the Mon/Fayette Expressway, are secured by Oil Franchise Tax Revenues. The Oil Franchise Tax Revenues are *not* pledged to secure the Bonds or the Registration Fee Revenue Bonds.

Registration Fee Revenues. The Commission's third principal stream of revenues consists of that portion of the Commonwealth's vehicle registration fee revenues (the "Registration Fee Revenues") allocated by statute to the Commission or the holders of any of the Commission's Registration Fee Revenue Bonds (the "Registration Fee Revenue Bonds"), a total of \$467,735,000 of which are issued and outstanding. The Registration Fee Revenue Bonds, the proceeds of which were spent on portions of the Mon/Fayette Expressway, are secured by Registration Fee Revenues. Registration Fee Revenue Bonds are to be paid solely from the Registration Fee Revenues. The Registration Fee Revenues are *not* pledged to secure the Bonds or the Oil Franchise Tax Revenue Bonds.

Future Sources. In addition to Additional Bonds, the Commission may, from time to time, issue other notes and bonds payable from such sources as may be available. Such indebtedness may be subordinated to the Bonds or may be secured by property or revenues that are not part of the Trust Estate which secures the Bonds.

2004A Bonds

The 2004A Bonds will bear interest at a fixed rate. The maturity dates, interest rates, approximate yields and prices on the 2004A Bonds are set forth on the inside front cover page hereof. They will bear interest from June 1, 2004, payable semi-annually on June 1 and December 1 of each year commencing on December 1, 2004. See DESCRIPTION OF THE 2004A BONDS.

Security

The 2004A Bonds are limited obligations of the Commission. They will be equally and ratably secured, along with other outstanding Turnpike Revenue Bonds issued pursuant to the Indenture and certain other Parity Obligations, by a pledge by the Commission of the Trust Estate consisting primarily of Tolls. **THE INDENTURE PLEDGES TO THE TRUSTEE FOR THE BENEFIT OF THE OWNERS OF THE BONDS ALL TOLLS RECEIVED BY OR ON BEHALF OF THE COMMISSION FROM THE SYSTEM. SEE "SECURITY FOR THE 2004A BONDS" FOR A MORE DETAILED DESCRIPTION OF THE TRUST ESTATE UNDER THE INDENTURE.** The Commission has agreed in the Indenture that it will at all times establish and maintain schedules of Tolls for traffic over the System so that the Net Revenues of the System in each Fiscal Year will at all times be at least sufficient to provide funds in an amount not less than (1) the greater of (i) 130% of the Annual Debt Service for such Fiscal Year on account of all Applicable Long-Term Indebtedness then outstanding under the provisions of the Indenture; or (ii) 100% of the Maximum Annual Debt Service on all Applicable Long-Term Indebtedness, plus (a) the amount of required transfers from the Revenue Fund to the credit of the Reserve Maintenance Fund pursuant to the Annual Capital Budget, and (b) an amount sufficient to restore any deficiency in the Debt Service Reserve Fund, if applicable, within an 18 month period; plus (2) the amount of any Short-Term Indebtedness outstanding pursuant to the Indenture for more than 365 consecutive days. In addition, Net Revenues in excess of the sum of the amounts set forth in clauses (1) and (2) above, together with Other Revenues pledged to the payment of Subordinated Indebtedness, shall be sufficient to pay the Annual Debt Service for any Subordinated Indebtedness (such covenant is referred to as the "Rate Covenant"). **THE 2004A BONDS SHALL NOT BE DEEMED TO BE A DEBT OF THE COMMONWEALTH OR A PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH. THE COMMONWEALTH IS NOT OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION WHATSOEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THE PAYMENT OF ANY OF THE 2004A BONDS.**

Bond Insurance

Payment of the principal of and interest on the 2004A Bonds when due will be insured by a financial guaranty insurance policy (the "Bond Insurance Policy") to be issued by Ambac Assurance Corporation ("Ambac Assurance" or the "2004A Bond Insurer") simultaneously with the delivery of the 2004A Bonds. See BOND INSURANCE. See APPENDIX D – SPECIMEN BOND INSURANCE POLICY for specimen of the Bond Insurance Policy to be issued by Ambac Assurance.

Redemption

The 2004A Bonds are subject to optional and mandatory redemption prior to maturity under certain circumstances as more fully set forth herein. See DESCRIPTION OF THE 2004A BONDS – Optional Redemption and Mandatory Redemption.

Book-Entry Only

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2004A Bonds. All 2004A Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). Fully registered Bond certificates will be issued and deposited with DTC. See BOOK-ENTRY ONLY SYSTEM.

Plan of Finance

The 2004A Bonds are being issued to provide funds to (a) pay the costs of funding various capital expenditures through the fiscal year ending May 31, 2009 as set forth in the Commission's Ten Year Capital Plan (Fiscal Years 2004/2005 through 2013/2014) including, but not limited to the construction of a new replacement Susquehanna River Bridge, the widening and redecking of certain other bridges throughout the System, and the reconstruction of the roadbed and roadway between the Blue Mountain and Carlisle interchanges; (b) fund the Debt Service Reserve Fund to the extent necessary; (c) pay capitalized interest, if any; (d) pay the premium for the Bond Insurance Policy; and (e) pay the costs of issuance of the 2004A Bonds.

DESCRIPTION OF THE 2004A BONDS

General

The 2004A Bonds will be dated June 1, 2004 and will bear interest from that date at the rates per annum and will mature on the dates set forth on the inside front cover page of this Official Statement. Interest on the 2004A Bonds will be payable semi-annually on June 1 and December 1 of each year commencing December 1, 2004 (each, an "Interest Payment Date").

The 2004A Bonds will be issued as fully registered bonds in denominations of \$5,000 each or any multiple thereof. Bonds will be transferable in accordance with the provisions of the Indenture. The Trustee may charge an amount sufficient to reimburse it for any tax, fee or other governmental charge required to be paid in connection with any such transfer, registration, conversion or exchange plus such amount as the Commission deems appropriate for such transfer, registration, conversion or exchange. Principal of the 2004A Bonds is payable at the designated office of the Trustee. Interest on the 2004A Bonds shall be paid by check or draft mailed by Wachovia Bank National Association, as Paying Agent, to the registered holders at their addresses as they appear in the registry books of the Trustee as of the regular record date which shall be the fifteenth calendar day of the month immediately preceding the Interest Payment Date. Any interest not paid on an Interest Payment Date shall be paid to the persons in whose names 2004A Bonds are registered as of a special record date established by the Trustee, notice of which shall have been mailed not less than 15 days prior to such date to the persons in whose names 2004A Bonds are registered at the close of business on the fifth day prior to such mailing.

So long as the 2004A Bonds are in book-entry only form, the principal and redemption price of, and interest on, such 2004A Bonds is payable by check or draft mailed or wire transferred to Cede & Co., as nominee for DTC and registered owner of the 2004A Bonds, for redistribution by DTC to the its Participants and in turn to Beneficial Owners as described under BOOK-ENTRY ONLY SYSTEM.

The Indenture, and all provisions thereof, are incorporated by reference in the text of the 2004A Bonds, and the 2004A Bonds provide that each registered owner, Beneficial Owner, Participant or Indirect Participant (as such terms are defined hereinafter) by acceptance of a 2004A 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 2004A Bond.

Redemption Prior to Maturity

The 2004A Bonds will be subject to redemption prior to maturity as follows:

Optional Redemption

The 2004A Bonds maturing on or after December 1, 2015 are subject to optional redemption prior to maturity by the Commission at any time on and after December 1, 2014, as a whole or in part by lot at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date.

Mandatory Redemption. The 2004A Bonds maturing on December 1, 2029, December 1, 2031 and December 1, 2034 shall be subject to mandatory sinking fund redemption prior to maturity by the Commission in part on December 1 of the respective years and in the amounts set forth below, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date:

Bonds Maturing 2029:

| <u>Year (December 1)</u> | <u>Principal Amount</u> |
|--------------------------|-------------------------|
| 2025 | \$1,615,000 |
| 2026 | 1,700,000 |
| 2027 | 1,835,000 |
| 2028 | 2,015,000 |
| 2029* | 2,160,000 |

Bonds Maturing 2031:

| <u>Year (December 1)</u> | <u>Principal Amount</u> |
|--------------------------|-------------------------|
| 2030 | \$2,270,000 |
| 2031* | 57,340,000 |

Bonds Maturing 2034:

| <u>Year (December 1)</u> | <u>Principal Amount</u> |
|--------------------------|-------------------------|
| 2033 | \$63,670,000 |
| 2034* | 66,855,000 |

* Stated Maturity

Redemption Procedures. If less than all of the 2004A Bonds which are stated to mature on the same date shall be called for redemption, the particular 2004A Bonds or portions of 2004A Bonds to be redeemed shall be selected by lot by the Trustee or in such manner as the Trustee deems fair and appropriate; provided, however, that the Trustee shall treat each 2004A Bond as representing that number of 2004A Bonds respectively which is obtained by dividing the principal amount thereof by \$5,000.

In the event of any such redemption, either in whole or in part, notice of such redemption shall be mailed, postage prepaid, at least 30 days, but not more than 60 days prior to the redemption date to the registered owners of any 2004A Bonds or portions of 2004A Bonds to be redeemed at their registered addresses and to Standard & Poor's Corporation, Moody's Investors Service, Inc., Fitch Ratings and The Bond Buyer or their respective successors, if any, in the manner and under the terms and conditions provided in the Indenture. As long as DTC remains the sole registered owner of the 2004A Bonds, notice of redemption shall be sent to DTC as provided in the Indenture. Such mailing shall not be a condition precedent to such redemption and failure to mail any such notice shall not affect the validity of the proceedings for the redemption of 2004A Bonds. Notice of redemption having been given as aforesaid, the 2004A Bonds or portions thereof so called for redemption shall become due and payable at the applicable redemption price herein provided, and from and after the date so fixed for redemption, interest on the 2004A Bonds or portions thereof so called for redemption shall cease to accrue and become payable. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the 2004A Bonds called for redemption or of any other action premised on such notice. See BOOK-ENTRY ONLY SYSTEM.

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

PLAN OF FINANCING

The 2004A Bonds are being issued to provide funds to (a) pay the costs of funding various capital expenditures through the fiscal year ending May 31, 2009 as set forth in the Commission's Ten Year Capital Plan (Fiscal Years 2004/2005 through 2013/2014) including, but not limited to the construction of a new replacement Susquehanna River Bridge, the widening and redecking of certain other bridges throughout the System, and the reconstruction of the roadbed and roadway between the Blue Mountain and Carlisle interchanges; (b) fund the Debt Service Reserve Fund to the extent necessary; (c) pay capitalized interest, if any; (d) pay the premium for the Bond Insurance Policy; and (d) pay the costs of issuance of the 2004A Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

SOURCES OF FUNDS

| | |
|-----------------------------|--------------------------------|
| Par Amount of Bonds | \$269,245,000.00 |
| Net Original Issue Discount | (528,327.25) |
| Accrued Interest | 270,953.72 |
| TOTAL SOURCES | <u>\$268,987,626.47</u> |

USES OF FUNDS

| | |
|---|--------------------------------|
| Deposit to Construction Fund | \$250,000,241.71 |
| Deposit to Debt Service Reserve Fund | 14,464,853.13 |
| Accrued Interest Deposit to Debt Service Fund | 270,953.72 |
| Costs of Issuance ¹ | 4,251,577.91 |
| TOTAL USES | <u>\$268,987,626.47</u> |

¹ Costs of Issuance include Bond Insurance premium, underwriters' discount, Bond Counsel fee, Underwriters Counsel fee and other legal fees, printing expenses, Financial Advisor's fee and Trustee's fee.

BOOK-ENTRY ONLY SYSTEM

The following information concerning DTC and DTC's book-entry only system has been obtained from DTC. The Commission, the Underwriters and the Trustee make no representation as to the accuracy of such information.

Initially, the 2004A Bonds will be available in book-entry-only form. Purchasers of the 2004A Bonds will not receive certificates representing their interests in the 2004A Bonds purchased. DTC will act as securities depository for the 2004A Bonds. The 2004A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for the 2004A Bonds in the aggregate principal amount of each maturity of the 2004A Bonds, and will be deposited with DTC.

DTC 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 securities that its participants (the "Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in accounts of the Direct Participants, thereby eliminating the need for physical movement of securities certificates. "Direct Participants" include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission (the "SEC"). So long as the 2004A Bonds are maintained in book-entry-only form with DTC, the following procedures will be applicable with respect to the 2004A Bonds.

Purchases of 2004A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2004A Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (the "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, but Beneficial Owners are 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 2004A 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 2004A Bonds, except in the event that use of the book-entry-only system for the 2004A Bonds is discontinued.

To facilitate subsequent transfers, all 2004A 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 2004A 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 2004A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2004A 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 2004A Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2004A Bonds. Beneficial Owners of 2004A Bonds may wish to ascertain that the nominee holding the 2004A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or 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 2004A Bonds within a maturity 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 2004A Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer 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 2004A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, interest and premium, if any, with respect to the 2004A Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee or the Commission on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Trustee or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium and interest, if any, with respect to the 2004A Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commission or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2004A BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED OWNERS OF THE SERIES 2004A BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2004A BONDS.

IT IS THE DUTY OF EACH BENEFICIAL OWNER TO ARRANGE WITH THE DTC PARTICIPANT OR INDIRECT PARTICIPANT TO RECEIVE FROM SUCH DTC PARTICIPANT OR INDIRECT PARTICIPANT PAYMENTS OF PRINCIPAL AND INTEREST, CREDIT BALANCES, NOTICE OF REDEMPTION AND ALL OTHER COMMUNICATIONS WHICH THE DTC PARTICIPANT OR INDIRECT PARTICIPANT RECEIVES FROM DTC.

NEITHER THE COMMISSION, THE TRUSTEE NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT OF ANY AMOUNT DUE TO ANY DTC PARTICIPANT, ANY INDIRECT PARTICIPANT OR BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR INTEREST ON THE SERIES 2004A BONDS; (3) THE DELIVERY OF ANY NOTICE TO ANY DTC PARTICIPANT, ANY INDIRECT PARTICIPANT OR BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE 2004A BONDS TO BE GIVEN TO BONDHOLDERS; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

In the event that the Book-Entry Only System is discontinued and the Beneficial Owners become registered owners of the 2004A Bonds, the 2004A Bonds will be transferable in accordance with the provisions of the Indenture.

SECURITY FOR THE 2004A BONDS

The 2004A Bonds are limited obligations of the Commission payable solely from the Trust Estate. They are secured, along with the other outstanding Bonds and certain other Parity Obligations, under the Indenture by the pledge by the Commission to the Trustee of (1) the Tolls, (2) all monies deposited into accounts or funds, other than the Rebate Fund, created by the Indenture, (3) any insurance proceeds required to be deposited under the Indenture, (4) all payments received pursuant to Parity Swap Agreements and (5) all investment earnings on all monies held in accounts and funds, other than the Rebate Fund, established by the Indenture (all five of these items being collectively referred to as the "Trust Estate"). **OIL FRANCHISE TAX REVENUES AND REGISTRATION FEE REVENUES, AS WELL AS OTHER SOURCES OF THE COMMISSION'S REVENUES NOT DERIVED FROM THE SYSTEM, ARE EXCLUDED FROM THE TRUST ESTATE. THE TRUST ESTATE ALSO EXCLUDES ALL MONIES HELD IN THE REBATE FUND. ANY ADDITIONAL BONDS**

ISSUED PURSUANT TO THE INDENTURE WILL BE EQUALLY AND RATABLY SECURED UNDER THE INDENTURE.

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

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

There is a Debt Service Reserve Fund for the 2004A Bonds and other Debt Service Reserve Fund Bonds issued under the Indenture, as more fully described below.

Rate Covenant

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

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

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

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

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

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

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

Revenue Fund

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

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

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

Operating Account

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

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

Debt Service Fund

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

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

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

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

Reserve Maintenance Fund

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

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

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

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

Debt Service Reserve Fund

A deposit will be made to the Debt Service Reserve Fund from the proceeds of the 2004A Bonds. See APPENDIX B, SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – THE INDENTURE - Debt Service Reserve Fund for information with respect to the Debt Service Reserve Fund.

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

To the extent accounts are created in the Debt Service Reserve Fund for Debt Service Reserve Fund Bonds, including the creation of an account for the 2004A Bonds, the funds and DSRF Security, as hereinafter defined, held therein shall be available to make payments required under the Indenture for the benefit of all Debt Service Reserve Fund Bonds.

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

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

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

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

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

General Reserve Fund

After first having made the above specified deposits to the Operating Account, the Debt Service Fund, the Reserve Maintenance Fund and the Debt Service Reserve Fund, if applicable, and while any Bonds are outstanding, the Trustee is required to transfer from the Revenue Fund on or before the last Business Day of each Fiscal Year (or more frequently if requested by a Commission Official) to the credit of the General Reserve Fund any funds which a Commission Official determines to be in excess of the amount required to be reserved therein for future transfers to the Debt Service Fund. Monies in the General Reserve Fund may be expended by the Commission to restore deficiencies in any funds or accounts created under the Indenture, and absent any such deficiency, for any of the following purposes, with no one item having priority over any of the others:

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

BOND INSURANCE

The following information has been provided to the Commission by Ambac Assurance for use in this Official Statement.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance Corporation (“Ambac Assurance”) has made a commitment to issue a financial guaranty insurance policy (the “Financial Guaranty Insurance Policy”) relating to the 2004A Bonds effective as of the date of issuance of the 2004A Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, New York, New York or any successor thereto (the “Insurance Trustee”) that portion of the principal of and interest on the 2004A Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the 2004A Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the 2004A Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding 2004A Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding 2004A Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the 2004A Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a 2004A Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Commission has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

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

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

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of 2004A Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 2004A Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the 2004A Bond, appurtenant coupon, if any, or right to payment of principal or interest on such 2004A Bond and will be fully subrogated to the surrendering Holder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$7,670,000,000 (unaudited) and statutory capital of \$4,683,000,000 (unaudited) as of March 31, 2004. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Financial Guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the 2004A Bonds.

Ambac Assurance makes no representation regarding the 2004A Bonds or the advisability of investing in the 2004A Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading BOND INSURANCE.

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

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

Incorporation of Certain Documents by Reference

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

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004;
2. The Company's Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004; and
3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004.

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

THE COMMISSION

The Commission was created as an instrumentality of the Commonwealth by Act 211 of the General Assembly approved May 21, 1937, P.L. 774, as amended, (the "Act"), with power to construct, operate and maintain the System. Its composition, powers, duties, functions, duration and all other attributes are derived from the Act as amended and supplemented by subsequent legislation. The Act may be modified, suspended, extended or terminated at any time by further legislation.

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

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

| <u>Name</u> | <u>Position</u> | <u>Expiration of Term</u> ⁽¹⁾ |
|-----------------------|---------------------|--|
| Mitchell Rubin | Chairman | June 25, 2006 |
| Timothy J. Carson | Vice Chairman | November 21, 2004 |
| J. William Lincoln | Secretary-Treasurer | May 18, 2008 |
| Pasquale T. Deon, Sr. | Commissioner | June 25, 2006 |
| Allen Biehler | Commissioner | Ex-Officio |

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

Act 61 expanded the scope of and modified the earlier legislation and granted additional powers to the Commission. It authorized and empowered the Commission to undertake the Capital Improvement Program (hereinafter defined) as well as other construction projects. It further authorized the Commission to issue, by resolution, Turnpike Revenue Bonds for the purpose of paying the costs of such turnpike projects. Such Turnpike Revenue Bonds may be issued for a term not to exceed 40 years from their dates of issuance without any other proceedings or the happening of any other conditions or things other than those proceedings, conditions and things which are presently specified and required by Act 61. Act 26 made certain changes to Act 61 by shifting the priority of certain Act 61 projects and by adding provisions regarding certain new projects. Act 26 also authorized, after certain approvals, the conversion of certain portions of the interstate system to toll roads, if necessary.

The Act provides that the Commission shall not be required to pay any taxes or assessments on any property acquired or used by it. It also provides that Turnpike Revenue Bonds issued by the Commission shall not

be deemed to be a debt of the Commonwealth or a pledge of the faith and credit of the Commonwealth and that the Commonwealth is not obligated to levy or pledge any form of taxation or make any appropriation for the payment of such bonds. The Commission has no taxing power.

Executive Personnel

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

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

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

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

William A. Chesnutt has been Chief Counsel to the Commission since October 1995. Prior to that time, he was a partner in McNees, Wallace & Nurick of Harrisburg, Pennsylvania.

THE PENNSYLVANIA TURNPIKE

Background

The Pennsylvania Turnpike was constructed prior to development of the National Interstate Highway System. Portions of the System have been designated as Interstate Routes, but no Federal Highway Trust Fund monies have been utilized in the construction of the Turnpike other than a portion of the cost of the Mon/Fayette Expressway.

Mainline Section, Northeast Extension, Mon/Fayette Expressway and Southern Beltway

The System consists of (1) an east-west mainline section (the "Mainline Section") traversing the southern portion of Pennsylvania and connecting with the Ohio Turnpike at the System's western terminus and the New Jersey Turnpike at the System's eastern terminus, (2) a north-south section (the "Northeast Extension") which connects the Mainline Section at Plymouth Meeting with the area north of Scranton, Pennsylvania, where it connects with Interstate Route 81, and (3) the completed portion of the Mon/Fayette Expressway (the "Mon/Fayette Expressway") on which tolls are being collected. The total length of the Mainline Section is approximately 360 miles and the total length of the Northeast Extension is approximately 110 miles. A north-south connection, known as the Beaver Valley Expressway, is approximately 16 miles in length and intersects the Turnpike Mainline. The Amos K. Hutchinson Bypass is approximately 13 miles in length and adjoins the Turnpike Mainline near the New Stanton Interchange.

The Mainline Section, together with the New Jersey Turnpike, the Ohio Turnpike, the Indiana Toll Road and the Chicago Skyway, is part of an all toll, limited access highway network from New York City to the central business district of Chicago. Major metropolitan areas such as Newark, Trenton, Philadelphia, Pittsburgh and Cleveland are served by this highway facility. The Mainline Section commences on the eastern boundary of Pennsylvania at the Delaware River Bridge which connects the System to the New Jersey Turnpike. The Delaware River Bridge is owned jointly by the Pennsylvania Turnpike Commission and the New Jersey Turnpike Authority. The Mainline Section traverses the state in a westerly direction generally paralleling the southern border of the state immediately north of Philadelphia and south of Harrisburg to the vicinity of Somerset. West of Somerset, the

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

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

The Commission is also proposing to construct the Southern Beltway, a 30-mile road which will extend from the Mon/Fayette Expressway near Finleyville to PA Route 60 at the Pittsburgh International Airport. See CAPITAL IMPROVEMENT PROGRAM – Mon/Fayette Expressway and Southern Beltway.

The Mainline Section has been designated as Interstate Route 276 between the area where Interstate Route 95 crosses the System between Interchanges 351 and 358 and the Valley Forge Interchange, Interchange 326. The portion of the Mainline Section 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 Mainline Section between the New Stanton and Breezewood Interchanges (Interchanges 75 through 161) has been designated as Interstate Route 70. The Northeast Extension is designated as Interstate Route 476.

Interchanges and Service Areas

The System has a total of 41 interchanges which connect it with major arteries and population centers in its 470 mile traffic corridor. Thirty-one of the interchanges are located on the Mainline Section, including mainline barriers at the New Jersey and Ohio State lines, and the remaining ten interchanges are situated on the Northeast Extension. The System serves, through its more important interchanges, the Ohio Turnpike/Gateway (Mainline Interchange 1); the Pittsburgh metropolitan area (Mainline Interchanges 30, 39, 48, 57, 67, 75 and 91); New Stanton (Mainline Interchange 75); Johnstown (Mainline Interchange 110); the Washington, D.C. area by way of Breezewood (Mainline Interchange 161); Harrisburg (Mainline Interchanges 236, 242 and 247); the Philadelphia metropolitan area (Mainline Interchanges 326, 333, 339, 343 and 351); the New Jersey Turnpike, by way of the Delaware River Bridge (Mainline Interchange 359); Lehigh Valley-Allentown (Northeastern Extension Interchange 56); the Pocono Resort area by way of Pocono (Northeastern Extension Interchange 95); and the Wilkes-Barre Scranton area (Northeastern Extension Interchanges 105 and 115). In 2003 the System completed the conversion of its interchange numbering system to a milepost-based system (designating interchanges according to their milepost locations) in order to conform to Federal Highway Administration standards.

There are 22 service plazas along the System providing gasoline and diesel fuel, other automotive supplies and services and restaurant services. Sunoco operates and provides automotive services for these service stations pursuant to a lease. Through competitive bidding, the Commission provides for restaurant service at the 22 service plazas. The Commission currently has service leases with Marriott Corporation, McDonald's and Arby's.

Toll Schedule and Rates

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

Since 1957, the Commission has implemented only four revisions in its toll schedule, which became effective on September 1, 1969, August 1, 1978, January 2, 1987 and June 1, 1991. A fifth increase will take effect on August 1, 2004, when Turnpike tolls will increase by 1.8 cents per mile for passenger vehicles, from 4.1 to 5.9 cents per mile. Commercial vehicles will experience an average increase of 5.3 cents per mile. This toll increase is consistent with the rate of inflation over the 13 years since the Commission's last toll increase in 1991. All revenue

generated by the toll increase is expected to be used to fund capital improvements to the Turnpike's roads, tunnels and other system upgrades.

The Commission learned on May 21, 2004, after release of the Preliminary Official Statement for the 2004A Bonds, that one State Senator circulated a letter seeking co-sponsors to join in introducing legislation which would (1) impose a moratorium on toll increases, retroactive to January 1, 2004, and (2) require future toll revisions to be approved by the Senate and the House of Representatives of the Commonwealth of Pennsylvania. The moratorium is intended to prevent the recently enacted toll increase described above from going into effect. Similar legislation was introduced in the House earlier this year and was never reported out of the House committee. The staff of the Commission has no reason to believe that such legislation, if introduced, will attract sufficient support to be enacted into law.

The following Table I illustrates the existing tolls and per mile rates applicable to each vehicle class for a trip on the Mainline Section from Interchange 2 through Interchange 358 and the new tolls which go into effect on August 1, 2004.

TABLE I
Current Tolls and New Tolls (Effective August 1, 2004) and Per Mile Rates for a Mainline Roadway East<->West Complete Trip (Delaware River Bridge <->Gateway Barrier/Ohio Border)

| <u>Vehicle Toll Class</u> | <u>Gross Vehicle Weight (Thousand Pound)</u> | <u>Current Toll</u> | <u>Per Mile Rate</u> | <u>New Toll</u> | <u>New Per Mile Rate</u> |
|---------------------------|--|---------------------|----------------------|-----------------|--------------------------|
| 1 | 1-7 | \$14.80 | \$0.0409 | \$21.25 | \$0.059 |
| 2 | 7-15 | 21.90 | 0.0604 | 31.25 | 0.087 |
| 3 | 15-19 | 26.80 | 0.0738 | 39.00 | 0.108 |
| 4 | 19-30 | 31.45 | 0.0869 | 45.25 | 0.126 |
| 5 | 30-45 | 44.50 | 0.1226 | 63.75 | 0.177 |
| 6 | 45-62 | 56.10 | 0.1546 | 80.75 | 0.224 |
| 7 | 62-80 | 80.60 | 0.2227 | 115.25 | 0.320 |
| 8 | 80-100 | 105.05 | 0.2908 | 150.75 | 0.419 |
| 9 | Over 100 | 598.35 | 1.6806 | 861.00 | 2.392 |

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

The 1998 Federal Transportation Equity Act for the 21st Century, known as TEA 21, prohibits, during the reconstruction of Route 30, the collection of Tolls on the System for travel either entering Breezewood Interchange and exiting Eiedford Interchange or entering Bedford Interchange and exiting Breezewood Interchange. On August 18, 1998, the Federal Highway Administration ("FHWA"), the Pennsylvania Department of Transportation ("PennDOT") and the Commission entered into a Tri-Party Partnership Agreement for the payment of \$3,000,000 in federal funds appropriated by the FHWA to the Commission through PennDOT for the prepayment of revenue which would have been generated by direct Toll collection at those Interchanges. The 2001 Federal Appropriations Act provided an additional \$8,000,000 in federal funds which is an estimate of prepayment of revenues intended to replace Tolls not collected between the Bedford and Breezewood Interchanges. As of May 1, 2004, approximately \$3,900,000 of such funds remained unexpended. Once such funds are expended, it is the Commission's intention to resume normal toll collections for customers traveling between the two interchanges. TEA 21 was originally scheduled to expire on September 30, 2003 but has been extended by Congress three times since that date, so that it currently is scheduled to expire on June 30, 2004.

Five-Year Financial History

The following tables II and III illustrate the financial history of the System for the five Fiscal Years from 1999 to 2003. The financial statements are a combination of cash basis financial statements with certain accruals included. Tables II and III should be read in conjunction with the financial statements prepared in accordance with generally accepted accounting principles and related notes included in APPENDIX A, AUDITED 2003 AND 2002 FINANCIAL STATEMENTS.

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

| Year Ended <u>May 31:</u> | Number of Vehicles | | | Fare Revenues | | | | Net Fare <u>Revenues</u> |
|------------------------------|--------------------|-------------------|--------------|------------------|-------------------|--------------|-----------------|-----------------------------|
| | <u>Passenger</u> | <u>Commercial</u> | <u>Total</u> | <u>Passenger</u> | <u>Commercial</u> | <u>Total</u> | <u>Discount</u> | |
| 1999 | 136,399 | 19,833 | 156,232 | \$191,804 | \$169,852 | \$361,656 | \$11,091 | \$350,565 |
| 2000 | 138,762 | 21,341 | 160,103 | \$195,301 | \$184,352 | \$379,653 | \$12,316 | \$367,337 |
| 2001 | 141,033 | 21,278 | 162,311 | \$199,991 | \$178,353 | \$378,344 | \$12,674 | \$365,670 |
| 2002 | 150,496 | 22,298 | 172,794 | \$212,650 | \$175,591 | \$388,241 | \$12,490 | \$375,751 |
| 2003 | 156,220 | 23,179 | 179,339 | \$219,201 | \$180,300 | \$399,501 | \$12,279 | \$387,222 |

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

| | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> |
|---|---------------|---------------|---------------|---------------|---------------|
| Revenues | | | | | |
| Net Toll Revenues | \$350,564 | \$367,337 | \$365,670 | \$375,751 | \$387,222 |
| Concession Revenues | 9,433 | 9,869 | 10,019 | 10,221 | 10,343 |
| Interest Income | 14,522 | 16,904 | 15,006 | 17,243 | 6,162 |
| Miscellaneous | <u>2,137</u> | <u>2,126</u> | <u>2,453</u> | <u>3,159</u> | <u>10,626</u> |
| Total Revenues | \$376,656 | \$396,236 | \$393,148 | \$406,374 | \$414,353 |
| Operating Expenditures | | | | | |
| Turnpike Patrol | \$20,414 | \$21,416 | \$19,884 | \$22,179 | \$22,952 |
| General & Administrative | 18,981 | 12,894 | 13,458 | 14,339 | 15,473 |
| Normal Maintenance | 48,633 | 39,237 | 45,879 | 42,835 | 52,820 |
| Fare Collection | 61,283 | 49,953 | 55,981 | 54,669 | 57,188 |
| Traffic Services, Safety & Communications | <u>11,453</u> | <u>40,947</u> | <u>46,196</u> | <u>53,437</u> | <u>49,589</u> |
| Total Operating Expenditures | \$160,764 | \$164,447 | \$181,398 | \$187,459 | \$198,022 |
| Revenues less Operating Expenditures | \$215,892 | \$231,789 | \$211,750 | \$218,915 | \$216,331 |
| Annual Debt Service Requirement | \$87,008 | \$87,841 | \$88,245 | \$94,170 | \$87,369 |
| Coverage Ratio | 2.48 | 2.64 | 2.40 | 2.32 | 2.48 |
| Transfer to the Reserve Maintenance Fund | \$100,870 | \$120,139 | \$145,500 | \$155,000 | \$115,000 |

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

Budget Process

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

Financial Policies and Guidelines

In addition, the Commission adopted an Investment Policy and Guideline for the investment of cash assets on June 6, 1997. The policy statements set forth the purpose, objectives, and guidelines for eligible securities, performance benchmarks, periodic reviews and amendments with respect to investments. The Commission

approved an amendment to the Investment Policy effective November 7, 2002 that permitted the use of additional types of eligible securities consistent with the Amended and Restated Trust Indenture dated as of March 1, 2001.

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

E-ZPass

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

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

The Commission's annual revenues from E-ZPass drivers increased from \$10,500,486 during the fiscal year ended May 31, 2001 to \$82,826,125 during the fiscal year ended May 31, 2003. The Commission's annual revenues from ticketed drivers (i.e., those not using E-ZPass) decreased from \$355,169,642 to \$304,395,521. The Commission expects that E-ZPass usage will continue to grow significantly.

The Commission is a member of the E-ZPass Interagency Group (IAG), a coalition of toll authorities throughout the United States. The Interagency Group also includes the following agencies: Buffalo and Fort Erie Public Bridge Authority; Burlington County Bridge Commission; Delaware Department of Transportation; Delaware River and Bay Authority; Delaware River Joint Toll Bridge Commission; Delaware River Port Authority; Maine Turnpike Authority; Maryland Transportation Authority; Massachusetts Turnpike Authority; Massachusetts Port Authority; New Hampshire Department of Transportation, Bureau of Turnpikes; New Jersey Turnpike Authority; New York State Bridge Authority; New York State Thruway Authority; Niagara Falls Bridge Commission; Port Authority of New York and New Jersey; South Jersey Transportation Authority; Virginia Department of Transportation; and West Virginia Parkways Authority.

New highway construction projects, such as the Mon/Fayette Expressway and Southern Beltway, are being designed and built to be compatible with the introduction of the E-ZPass system. The installation of the E-ZPass system has required the incorporation of innovative technologies, such as video enforcement, into a single toll system that uses hardware and software adaptable to future technologies. The Commission has a contract, extending through June 2005, with Transcore Company for the design, installation and maintenance of the E-ZPass system software and hardware. The E-ZPass system implementation is a major component of the Commission's Ten Year Capital Plan.

Slip Ramps

The Commission has constructed an alternative interchange (a "Slip Ramp") near the Fort Washington Interchange. Such unmanned ramps, designed for the exclusive use of E-ZPass customers, are expected to reduce backups that occur at the Turnpike's busier interchanges and provide more direct access to major employment centers. The Commission is considering construction of slip ramps at other interchanges. One currently in the design stage is a slip ramp at Route 29 in Chester County, in the vicinity of the Great Valley Corporate Center.

Personnel and Labor Relations

As of May 5, 2004, the Commission employed 2,362 persons, consisting of 456 management employees, 1,892 union members, and 197 temporary employees. 78% of all employees are engaged in maintenance operations and fare collection. No work stoppages or other labor union action has been taken against the Commission since union representation began. The civil service requirements applicable to the state government do not apply to employees of the Commission.

The Commission is a party to three collective bargaining agreements with three different locals of the Teamsters' Union which cover central office, field (such as maintenance and fare collection) and professional, non-supervisory personnel. The Commission also is party to one memorandum of understanding with a local of the Teamsters' Union covering central office, field, and first level supervisory personnel. The three collective bargaining agreements expired on September 30, 2003. No work stoppages or other labor union action has been taken against the Commission since union representation began. The memorandum of understanding has no termination date.

Retirement Plan

Substantially all employees of the Commission are covered by the State Employee's Retirement System of the Commonwealth. The costs of the contributory plan are paid by the Commission quarterly based upon a stipulated contribution rate. Participating agency contributions, including those for the Commission, are mandated by statute and are based upon an actuarially determined percentage of gross pay that is necessary to provide the State Employee's Retirement System with assets sufficient to meet the benefits to be paid to the State Employees' Retirement System members. Retirement plan contributions, which are treated as an operating expense of the System, totaled \$0 for the fiscal year ended May 31, 2003 with a contribution rate of 0%. The Commission expects that for the fiscal year ending May 31, 2004 its contribution rate will be 0.41% for "Class A" employees and 0.50% for "Class B" employees.

CAPITAL IMPROVEMENT PROGRAM

Act 61 Projects

In 1985, the General Assembly of the Commonwealth enacted legislation 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. This legislation, known as the Turnpike Organization, Extension and Toll Road Conversion Act, also known as Act 1985-61 ("Act 61"), included several groups of projects for the System.

Mon/Fayette Expressway and Southern Beltway

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

Two other projects will complete the entire Mon/Fayette Expressway. A 15-mile section, extending from Uniontown to Brownsville, has received environmental clearance and final engineering design and right-of-way acquisition is now underway. A 24-mile section, extending from Pennsylvania Route 51 to Interstate Route 376 in Pittsburgh, is in the environmental study phase. The environmental clearance for this section is expected to be obtained in 2004.

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 PA Route 60 at the Pittsburgh International Airport. It is presently planned for construction in three sections. Two of these sections are now in the environmental study

phase. The remaining section, from US 22 to PA 60, is currently under construction and is expected to be opened to traffic in 2006.

The total estimated cost of the Mon/Fayette Expressway and the Southern Beltway is approximately \$4.3 billion. The proceeds of the Commission's Oil Franchise Tax Bonds, Series A and B of 1998 and Series A, B and C of 2003, and the Commission's Registration Fee Revenue Bonds, Series of 2001 have been or will be applied toward these costs. It is anticipated that the remaining costs of approximately \$2.5 billion to complete the Mon/Fayette Expressway and the Southern Beltway will come from grants and other funding sources to be identified. These roads will be toll roads, with the tolls initially constituting Tolls and therefore being part of the Trust Estate securing the Bonds. The Commission has the discretion in the future, however, to exclude these roads from the System, in which event any tolls collected from these roads will no longer constitute Tolls nor be part of the Trust Estate.

Ten Year Capital Plan

The Commission has a Ten Year Capital Plan consisting of Highway, Information Technology and Infrastructure support programs. The Highway programs consist of roadway, bridge, tunnel, and toll plaza/interchange projects. The Information Technology programs consist of toll collection, communication, Intelligent Transportation Systems (ITS) and other electronic information management projects. The Infrastructure support programs consist of service plaza, facilities and large, heavy or high-value equipment needs.

The highest priority Highway project is the ongoing full depth roadway total reconstruction of the Mainline Section and the Northeast Extension, which currently costs approximately \$8,000,000 to \$10,000,000 per mile. This work includes the reconstruction of the roadway, the widening of the median, and the replacement of both mainline and overhead bridges. To date, approximately 24 miles of this project has been completed and approximately 18 miles are currently under construction.

The initial reconstruction involves sections of the 160-mile stretch of the original Pennsylvania Turnpike first opened in 1940 from Irwin to near Carlisle. The Commission's Ten Year Capital Plan contemplates \$87,500,000 being spent on this section of road through fiscal year 2007 while spending \$193,000,000 for reconstruction activities beyond the original mainline section.

Other highway projects include the construction of the Susquehanna River bridge replacement to begin early in 2005, followed by the replacement of the Lehigh River and Pohopoco River bridges and the Trout Run Bridge on the Northeast Extension. The Warrendale Toll Plaza and Cranberry Interchange projects are nearing completion and work is planned for replacement of the Gettysburg, Harrisburg East, Lebanon/Lancaster and Norristown Toll Plazas in the next few years.

The Information Technology program includes funding of \$142 million over the next ten years to address the Commission's Information Technology needs including toll collection projects, communication, application development and technical operational needs. The Infrastructure Support program includes funding of \$78 million over the next ten years for equipment to insure that the Commission is able to replace equipment in a cost effective manner and funding of \$282 million has been programmed to repair and replace the aging facilities of the Commission. This commitment will insure that adequate equipment and facilities are in good repair to support the maintenance of the Turnpike.

One of the primary initiatives of the Information Technology Program is the completion of an enhanced Toll collection system that includes the E-ZPass system. As part of this effort, the current toll equipment supporting the Mainline ticket system will be replaced with PC-based lane controllers. 330 lanes will be retrofitted with these new controllers. E-ZPass functions will be added to the lane controllers and video enforcement equipment will be added to all E-ZPass exit toll lanes for the Mainline ticket system, sections of the Mon/Fayette Expressway, and other weigh-barrier interchanges. Additional equipment will be acquired, such as personal computers for lane controllers, cameras for video enforcement and antennas and tag readers for the E-ZPass system.

PENNSYLVANIA TURNPIKE COMMISSION
FISCAL YEAR 2004-2005 TEN YEAR CAPITAL PLAN - ANNUAL PROGRAM DETAIL
(IN MILLIONS OF \$)

| CAPITAL PLAN CATEGORY | # OF PROJS. | % OF # PROJS. | Plan Yr. 1 | Priority A Year 2-4 | | | Priority B Year 5-7 | | | Priority C Year 8-10 | | | TEN YEAR TOTAL | % OF \$ TOTAL |
|---|-------------|---------------|----------------|---------------------|----------------|----------------|---------------------|----------------|----------------|----------------------|----------------|----------------|----------------|---------------|
| | | | FY 2004-'05 | FY 2005-'06 | FY 2006-'07 | FY 2007-'08 | FY 2008-'09 | FY 2009-'10 | FY 2010-'11 | FY 2011-'12 | FY 2012-'13 | FY 2013-'14 | | |
| HIGHWAY PROGRAM | | | | | | | | | | | | | | |
| Roadway | 63 | 24% | 154.1 | 227.4 | 216.8 | 249.9 | 239.2 | 255.6 | 304.6 | 323.8 | 295.2 | 203.6 | \$2,470 | 64% |
| Structures | 34 | 13% | 44.3 | 92.9 | 67.5 | 85.6 | 78.2 | 56.8 | 38.6 | 32.1 | 32.6 | 21.8 | \$550 | 14% |
| Tunnels | 18 | 7% | 4.1 | 11.9 | 2.4 | 13.5 | 15.2 | 9.0 | 46.4 | 51.0 | 38.1 | 7.1 | \$199 | 5% |
| Toll Plazas | 11 | 4% | 8.3 | 21.1 | 28.0 | 6.5 | 3.5 | 1.5 | 6.5 | 12.0 | 15.8 | 14.5 | \$118 | 3% |
| TOTAL | 126 | 48% | 210.7 | 353.3 | 314.7 | 355.5 | 336.1 | 322.9 | 396.0 | 418.9 | 381.6 | 247.0 | \$3,336 | 87% |
| INFORMATION TECHNOLOGY PROGRAM | | | | | | | | | | | | | | |
| Toll Collection | 12 | 5% | 25.4 | 8.7 | 5.0 | 12.2 | 8.4 | 8.5 | 8.3 | 8.5 | 9.7 | 9.5 | \$104 | 3% |
| Communications | 13 | 5% | 2.6 | 1.9 | 4.2 | 3.5 | 2.5 | 1.9 | 1.7 | 1.5 | 0.3 | 0.5 | \$21 | 1% |
| Application Development | 5 | 2% | 2.9 | 5.6 | 3.6 | 1.3 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | \$14 | 0% |
| Technical Operations | 5 | 2% | 1.8 | 1.3 | 0.5 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | \$4 | 0% |
| TOTAL | 35 | 13% | 32.7 | 17.4 | 13.3 | 17.1 | 11.5 | 10.4 | 10.0 | 10.0 | 10.0 | 10.0 | \$142 | 4% |
| EQUIPMENT & INFRASTRUCTURE SUPPORT PROGRAM | | | | | | | | | | | | | | |
| Service Plazas | 10 | 4% | 1.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | \$1 | 0% |
| Facilities | 86 | 33% | 24.0 | 44.2 | 25.7 | 22.9 | 27.7 | 27.6 | 27.3 | 27.3 | 27.8 | 27.8 | \$282 | 7% |
| Equipment (Rolling Stock) | 4 | 2% | 7.3 | 7.2 | 7.2 | 7.1 | 7.8 | 7.0 | 8.7 | 7.4 | 7.8 | 10.6 | \$78 | 2% |
| TOTAL | 100 | 38% | 32.6 | 51.4 | 32.9 | 30.0 | 35.4 | 34.5 | 36.0 | 34.6 | 35.6 | 38.4 | \$362 | 9% |
| TOTAL TURNPIKE NEEDS by YEAR | 261 | 100% | \$275.9 | \$422.1 | \$360.8 | \$402.6 | \$383.0 | \$367.8 | \$442.0 | \$463.4 | \$427.2 | \$295.4 | \$3,840 | 100% |
| TOTAL TURNPIKE NEEDS by PRIORITY | | | \$275.9 | \$1,185.5 | | | \$1,192.8 | | | \$1,186.0 | | | \$3,840 | |

Capacity Needs Study

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

AUDITED FINANCIAL STATEMENTS

The financial statements of the Commission for the years ended May 31, 2003 and May 31, 2002 are set forth in APPENDIX A, AUDITED 2003 AND 2002 FINANCIAL STATEMENTS, and certified by Ernst & Young, in its capacity as Independent Auditor. The Commission has not asked Ernst & Young to perform any additional review in connection with this Official Statement.

CONTINUING DISCLOSURE

The Commission will enter into a Continuing Disclosure Undertaking for the benefit of the registered owners from time to time of the 2004A Bonds (the "Disclosure Undertaking").

Pursuant to the Disclosure Undertaking, the Commission will provide to the Repositories and to the appropriate state information depository ("SID"), if any, within 180 days of the end of each fiscal year of the Commission commencing with the fiscal year ending May 31, 2004, annual financial information, consisting of financial and operating data of the type set forth in this Official Statement in Tables I, II and III and in APPENDIX A, AUDITED 2003 AND 2002 FINANCIAL STATEMENTS. In the event that audited financial statements are not available within 180 days of the close of the applicable fiscal year, the Annual Financial Information will contain unaudited financial statements and the audited financial statements will be provided for filing when available.

The Disclosure Undertaking will also provide that the Commission will file in a timely manner, with the Municipal Securities Rulemaking Board (the "MSRB"), notice of the occurrence of any of the following events with respect to the 2004A Bonds, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the 2004A Bonds; (vii) modifications to rights of holders of the 2004A Bonds; (viii) 2004A Bond calls; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the 2004A Bonds; and (xi) rating changes. The foregoing events are quoted from Rule 15c2-12.

In addition, the Commission shall give notice in a timely manner to the MSRB of any failure to provide the annual financial information on or before the date specified for such filing.

The Commission may amend the Disclosure Undertaking and waive any of the provisions thereof, but no such amendment or waiver shall be executed and effective unless (i) the amendment or waiver is made in connection with a change in legal requirements, change in law or change in the identity, nature or status of the Commission or the governmental operations conducted by the Commission; (ii) the Disclosure Undertaking, as modified by the amendment or waiver, would have been the written undertaking contemplated by Rule 15c2-12 at the time of original issuance of the 2004A Bonds, taking into account any amendments or interpretations of Rule 15c2-12; and (iii) the amendment or waiver does not materially impair the interests of the registered owners of the 2004A Bonds. Evidence of compliance with the foregoing conditions shall be satisfied by delivery to the Commission of an opinion of counsel having recognized skill and experience in the issuance of municipal securities and federal securities law to the effect that the amendment or waiver satisfies the conditions set forth in the preceding sentence. Notice of any amendment or waiver shall be filed by the Commission with each Repository and the State Information Depository, if any, and shall be sent to the registered owners of the 2004A Bonds.

The Disclosure Undertaking will recite that it is entered into for the benefit of the registered owners from time to time of the 2004A Bonds. For the purposes of the Disclosure Undertaking, for so long as the 2004A 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 2004A 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 2004A 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 2004A Bonds, (2) upon repeal or rescission of Section (b)(5) of Rule 15c2-12, or (3) upon a final determination that Section (b)(5) of Rule 15c2-12 is invalid or unenforceable. A copy of the Disclosure Undertaking is on file at the principal office of the Commission.

The Commission has complied with all of its continuing disclosure requirements with respect to its other series of bonds.

RELATIONSHIPS OF CERTAIN PARTIES

Dilworth Paxson LLP, Bond Counsel, has represented the Commission in various matters. Cohen & Grigsby, P.C., Counsel to the Underwriters, has also represented the Commission in various matters. Wachovia Bank National Association, the Trustee, has performed other services for the Commission. J.P. Morgan Securities, Inc. has served in the past in other capacities for the Commission, including remarketing agent, and has entered into other transactions with the Commission including interest rate swap agreements.

UNDERWRITING

The 2004A Bonds are being purchased by the Underwriters listed on the cover page (the "Underwriters") for whom J.P. Morgan Securities Inc. is acting as the Representative. The Underwriters have severally agreed to purchase the 2004A Bonds at an aggregate underwriting discount of \$1,655,856.75. The Underwriters will be obligated to purchase all of the 2004A Bonds if any of such 2004A Bonds are purchased. The 2004A Bonds may be offered and sold to certain dealers (including the Underwriters and other dealers depositing such 2004A Bonds into investment trusts) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters. The Commission has agreed to be liable to the Underwriters to the extent of all losses, claims, damages and liabilities arising out of incorrect statements or information contained in this Official Statement or material omissions therein, except for information furnished by the Underwriters, and with respect to certain other matters.

RATINGS

The Commission expects to receive municipal bond ratings of "AAA", "Aaa", and "AAA" respectively for the 2004A Bonds from Standard & Poor's, Moody's Investors Service and Fitch Ratings based upon the Bond Insurance Policy to be issued by Ambac Assurance. The Commission has received underlying ratings of "AA-", "Aa3" and "AA-", respectively, from Standard & Poor's, Moody's Investors Service and Fitch Ratings

An explanation of the significance of each of such ratings may be obtained from the rating agency furnishing the same. The Commission furnished to such rating agencies certain information and materials respecting the 2004A Bonds and itself. Generally, rating agencies base their ratings on such information and materials and investigations, studies and assumptions made by the rating agencies. There is no assurance that such ratings will be retained 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 one or more of such ratings may have an adverse effect on the market price of the 2004A Bonds.

LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the 2004A Bonds, or in any way contesting or affecting the validity of the 2004A Bonds or any proceedings of the Commission taken with respect to the offer or sale thereof, or the pledge or application of any monies or security provided for the payment of the 2004A Bonds, the existence or powers of the Commission or the construction of the Commission's capital improvement program.

The Commission is covered by Act No. 152 approved September 28, 1978, which provides for a limited waiver of sovereign immunity by the Commonwealth. Damages for any loss are limited to \$250,000 for each person and \$1,000,000 for each accident.

There are currently approximately 131 open claims for personal injury and/or property damage pending against the Commission.

LEGAL MATTERS

Certain legal matters will be passed upon by Dilworth Paxson LLP, Philadelphia, Pennsylvania, Bond Counsel. A copy of the form of opinion of Bond Counsel which will be delivered with the 2004A Bonds is set forth in APPENDIX C, FORM OF OPINION OF BOND COUNSEL. Certain other legal matters will be passed upon for the Underwriters by their Counsel, Cohen & Grigsby, P.C., Pittsburgh, Pennsylvania, and for the Commission by its Chief Counsel, William A. Chesnutt, Esquire.

FINANCIAL ADVISOR

The Commission has retained Hopkins & Company, Philadelphia, Pennsylvania, as Financial Advisor with respect to the authorization and issuance of the 2004A Bonds. The Financial Advisor is not obligated to undertake or assume responsibility for, nor has it undertaken or assumed responsibility for, an independent verification of the accuracy, completeness or fairness of the information contained in this Official Statement. Hopkins & Company is an independent advisory firm and is not engaged in the business of underwriting, holding or distributing municipal or other public securities.

TAX EXEMPTION AND OTHER TAX MATTERS

Federal Tax Exemption

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the 2004A Bonds will not be includable in the gross income of the holders thereof for federal income tax purposes and will not be a specific preference item for purposes of computing the alternative minimum tax imposed on individuals and corporations. However, interest on the 2004A Bonds paid or accrued during any period any 2004A Bonds are held by a corporation may be subject to alternative minimum tax imposed under the Internal Revenue Code of 1986, as amended (the "Code"), due to the adjustment for adjusted current earnings provided for in the Code. In addition, interest on the 2004A Bonds received or accrued in any taxable year by certain foreign corporations may be included in computing the "dividend equivalent amount" of such corporations subject to the branch profits tax imposed on such corporations under Section 884 of the Code. Further, interest on the 2004A Bonds may be subject to federal income taxation under Section 1375 of the Code for S corporations which have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross revenues of such S corporations is passive investment income.

Ownership of the 2004A Bonds may result in collateral federal income tax consequences to certain taxpayers including, without limitation, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers, including banks, thrift institutions and other financial institutions subject to Section 265 of the Code, who may be deemed to have incurred or continued indebtedness to purchase or to carry the 2004A Bonds. Bond Counsel expresses no opinion as to any such consequences, and prospective purchasers of the 2004A Bonds who may be subject to such collateral consequences should consult their tax advisors.

In rendering this opinion, Bond Counsel has assumed compliance by the Commission with its covenants to comply with the provisions of the Code relating to actions to be taken by the Commission in respect of the 2004A Bonds after the issuance thereof to the extent necessary to effect or maintain the federal exclusion from gross income of the interest on the 2004A Bonds. These covenants relate to, among other things, the use of and investment of proceeds of the 2004A Bonds and the rebate to the United States Treasury of specified arbitrage earnings, if any. Failure of the Commission to comply with such covenants could result in the interest on the 2004A Bonds becoming subject to federal income tax from the date of issuance.

Original Issue Discount; Original Issue Premium

The 2004A Bonds maturing on December 1, 2029 and December 1, 2034 are being issued at an original issue discount. The original issue discount in the selling price of any such 2004A Bond (an "OID Bond"), to the extent properly allocable to each holder of such OID Bond, is excluded from gross income for Federal income tax purposes with respect to such holder. The original issue discount is the excess of the stated redemption price or principal due at maturity of such OID Bond over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of such OID Bonds were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount so accrued in the particular accrual period will be considered to be excluded from gross income for Federal income tax purposes and will increase the holder's tax basis in such OID Bond. Any gain realized by a holder from a sale, exchange, payment or redemption of an OID Bond would be treated as gain from the sale or exchange of such OID Bond. Owners of OID Bonds should consult their tax advisors as to the determination for Federal income tax purposes of original issue discount accrued or accreted upon purchase, sale or redemption of such OID Bonds.

The 2004A Bonds other than the OID Bonds are being issued at an original issue premium. 2004A Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the 2004A Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a purchaser's basis in a Premium Bond and, under Treasury Regulations, the amount of tax exempt interest received will be reduced by the amount of amortizable bond premium properly allocated to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the 2004A Bonds.

Pennsylvania Tax Exemption

Under the laws of the Commonwealth as presently enacted and construed, the 2004A Bonds are exempt from personal property taxes in the Commonwealth and the interest on the 2004A Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax. However, under the laws of the Commonwealth as presently enacted and construed, any profits, gains or income derived from the sale, exchange or other disposition of obligations of the Authority, such as the 2004A Bonds, will be subject to Pennsylvania taxes within the Commonwealth. The 2004A Bonds and the interest thereon may be subject to state or local taxes in jurisdictions other than the Commonwealth under applicable state or local tax laws.

MISCELLANEOUS

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

The references herein to the Act, the 2004A Bonds, the Indenture, Supplemental Indenture No. 6, and the Continuing Disclosure Undertaking are brief summaries of certain provisions thereof. Such summaries do not purport to be complete and, accordingly, are qualified by reference and are subject to the full texts thereof.

Neither this Official Statement nor any other disclosure in connection with the 2004A Bonds is to be construed as a contract with the holders of the 2004A Bonds. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not expressly so identified, are intended merely as such and not as representations of fact.

PENNSYLVANIA TURNPIKE COMMISSION

By: /s/Mitchell Rubin

Chairman

[This page intentionally left blank.]

APPENDIX A

AUDITED 2003 AND 2002 FINANCIAL STATEMENTS

[This page intentionally left blank.]

PENNSYLVANIA TURNPIKE COMMISSION

Basic Financial Statements

Years ended May 31, 2003 and 2002 with Report of Independent Auditors

Pennsylvania Turnpike Commission

Basic Financial Statements

Years ended May 31, 2003 and 2002

Contents

| | |
|---|----|
| Report of Independent Auditors | 1 |
| Management's Discussion and Analysis | 2 |
| Audited Basic Financial Statements | |
| Balance Sheets | 8 |
| Statements of Revenues, Expenses, and Changes in Net Assets | 10 |
| Statements of Cash Flows | 11 |
| Notes to Financial Statements | 13 |

Report of Independent Auditors

The Commissioners
Pennsylvania Turnpike Commission

We have audited the accompanying balance sheets of the Pennsylvania Turnpike Commission as of May 31, 2003 and 2002, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Pennsylvania Turnpike Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pennsylvania Turnpike Commission as of May 31, 2003 and 2002, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Management's Discussion and Analysis on pages 2 to 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Ernst & Young LLP

August 5, 2003

Pennsylvania Turnpike Commission

Management's Discussion and Analysis

May 31, 2003

The management of the Pennsylvania Turnpike Commission (hereinafter referred to as the Commission) offers this narrative overview and analysis of the Commission's financial activities for the year ended May 31, 2003, which should be read in conjunction with the Commission's basic financial statements.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. While the Commission is considered a component unit of the Commonwealth of Pennsylvania, these financial statements are presented in a manner similar to a private-sector business. As such, the statements do not include any type of fund financial statements or analysis of fund balance, but they have been prepared according to accounting principles generally accepted in the United States (GAAP). All of the current year's revenues are recorded when earned and expenses are recorded as they are incurred, regardless of when the cash is received or disbursed.

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

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

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

Notes to the basic financial statements contain supplemental information, and often 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

Management's Discussion and Analysis (continued)

Financial Analysis

Comparative Balance Sheets

| | May 31 | |
|---|-----------------------|---------------------|
| | 2003 | 2002 |
| | <i>(In Thousands)</i> | |
| Assets | | |
| Current assets | \$ 344,905 | \$ 323,027 |
| Long-term investments | 665,313 | 764,971 |
| Capital assets, net of accumulated depreciation | 2,707,586 | 2,693,454 |
| Other assets | 67,158 | 59,489 |
| Total assets | <u>\$ 3,784,962</u> | <u>\$ 3,840,941</u> |
| Liabilities and net assets | | |
| Current liabilities | \$ 149,604 | \$ 168,179 |
| Bonds payable, net of unamortized discount | 2,084,936 | 2,095,966 |
| Other noncurrent liabilities | 19,049 | 25,342 |
| Total liabilities | <u>2,253,589</u> | <u>2,289,487</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 580,281 | 548,893 |
| Restricted | 700,913 | 788,468 |
| Unrestricted | 250,179 | 214,093 |
| Total net assets | <u>1,531,373</u> | <u>1,551,454</u> |
| Total liabilities and net assets | <u>\$ 3,784,962</u> | <u>\$ 3,840,941</u> |

As noted earlier, net assets serves as an indicator of the Commission's overall financial position. The Commission's net assets were \$1,531,373,000 and \$1,551,454,000, as of May 31, 2003 and 2002, respectively. Restricted net assets are reserved for projects defined in trust indentures and applicable bond issue official statements.

Total assets and total liabilities decreased by \$56.0 million and \$35.9 million, respectively. The decrease in assets is mainly the result of a \$69.8 million decrease in cash and investments which was partially offset by a \$14.1 million increase in capital assets. The reduction in liabilities at May 31, 2003 is mostly attributable to decreases in bonds payable, accrued bond interest, and workers' compensation.

Pennsylvania Turnpike Commission

Management's Discussion and Analysis (continued)

Financial Analysis (continued)

Comparative Statement of Revenues and Expenses

| | Year ended May 31 | |
|---|-----------------------|------------------|
| | 2003 | 2002 |
| | <i>(In Thousands)</i> | |
| Operating: | | |
| Operating revenues | \$ 404,366 | \$ 388,071 |
| Cost of services | 233,542 | 216,077 |
| Depreciation | 229,485 | 183,707 |
| Operating loss | <u>(58,661)</u> | <u>(11,713)</u> |
| Nonoperating: | | |
| Oil company franchise tax | 46,288 | 45,512 |
| Federal and state grants and reimbursements | 35,135 | 36,197 |
| Investment earnings | 62,787 | 60,783 |
| Interest expense | <u>(105,630)</u> | <u>(115,279)</u> |
| Nonoperating income | <u>38,580</u> | <u>27,213</u> |
| Change in net assets | <u>\$ (20,081)</u> | <u>\$ 15,500</u> |

For the first time in the Commission's history, operating revenues exceeded \$400 million.

Operating revenues increased 4.2% over the prior year due to the revenue growth associated with an increase in passenger vehicle traffic volumes of 5.7 million or 3.8% and an increase in commercial vehicle traffic volumes of 0.9 million or 4.0%. The operating revenue increase was offset by an 8.1% increase in cost of services, resulting from increased winter maintenance costs as well as expenses relating to continued implementation of the Commission's electronic toll collection system, E-ZPass.

The operating revenue and cost of service increases netted to a 0.7% decrease in operating income before depreciation. Depreciation expense increased by \$45.8 million or 24.9%. The increase in depreciation expense is attributable to, and consistent with, the current and prior periods' levels of capital expenditures on purchases of equipment and completion of capital projects. For the annual fiscal periods ending May 31, 2003 and 2002, more than \$179.8 million and \$849.4 million of assets were added to the Commission's depreciable base, respectively.

Pennsylvania Turnpike Commission

Management's Discussion and Analysis (continued)

Financial Analysis (continued)

Nonoperating income increased by \$11.4 million. This increase is the result of a \$2.0 million, or 3.3% increase in investment income and a \$9.6 million or 8.4% decrease in interest expense. The reduction in current year interest is mostly related to capitalized interest of \$6.5 million, which is a \$5 million increase from the prior year. Additionally, Oil Company Franchise Tax revenues increased by \$0.8 million or 1.7%, which was offset by \$1.1 million or 2.1% decrease in reimbursement income.

Capital Assets and Debt Administration

Capital Assets

The Commission's investment in capital assets as of May 31, 2003, amounted to \$5.2 billion of gross asset value with accumulated depreciation of \$2.5 billion, leaving a net book value of \$2.7 billion. This investment represents more than 71% of the Commission's total assets. Capital assets consist of land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are typically items that are immovable such as highways, bridges and tunnels.

Acquisitions of capital assets in 2003 amounted to more than \$12 million. In addition, more than \$167 million of constructed capital assets were completed during the year.

During the past fiscal year, the Commission spent \$214 million dollars on capital improvements to the existing system and \$43.7 million on the Mon-Fayette Expressway and Southern Beltway roadway expansion (Act 61) projects.

The third section of totally reconstructed roadway was completed on the original mainline turnpike. The reconstruction of this 10 mile section of highway from milepost 75 – 85 began in the fall of 1999 and was completed and fully open to traffic in the fall of 2002 at a cost of over \$50 million. Other roadway reconstruction projects continue and are in various phases of construction or design. The Commission also completed 16 miles of roadway repaving to maintain a safe and high quality roadway surface, which was confirmed with a system wide IRI (International Roughness Index) of 81.

Pennsylvania Turnpike Commission

Management's Discussion and Analysis (continued)

Capital Assets and Debt Administration (continued)

Capital Assets (continued)

The Commission continues to develop and implement a new enhanced toll collection system. The implementation of "E-ZPass" (electronic toll collection) for trucks was completed on the mainline ticket system in December 2002. Work continues on enhancement of the overall toll collection system with E-ZPass service being expanded at the most congested interchanges.

About half of the 70 mile Mon-Fayette Expressway project is open and operating. This new highway, when complete, will connect the City of Pittsburgh with I-68 near Morgantown, West Virginia. Work continues with environmental impact studies, design, and right-of-way acquisition for the remaining sections of both the Mon-Fayette Expressway and Southern Beltway projects. The Commission is preparing to bid the first section of the Southern Beltway project in August 2003.

Debt Administration

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

In September 2002 the Commission issued Series A and Series B variable rate demand Turnpike revenue bonds for an aggregate par amount of \$449.1 million. The Series A bond proceeds were issued to fully refund Series O of 1992 and provide a partial refunding of Series P of 1992, while the Series B bond proceeds were issued to refund the remaining Series P bonds.

Additional financing activity for the year ended May 31, 2003 included remarketing the Series Q of 1998 in September 2002. The remarketing, along with the closing of the Series A and B bonds of 2002, completed the Commission's overall debt restructuring strategy for the Mainline that began in March 2001. The debt restructuring strategy included issuing new debt, refunding existing higher coupon rate debt with lower coupon new bonds to lower overall debt service, and the adoption of the Amended and Restated Trust Indenture of 2001. The new indenture became effective upon approval of all bondholders in September 2002.

Pennsylvania Turnpike Commission

Management's Discussion and Analysis (continued)

Capital Assets and Debt Administration (continued)

Debt Administration (continued)

The debt restructuring strategy also included the use of swaps to synthetically convert variable rate debt to fixed rate debt. Forward interest rate swap agreements were issued in June 2001 for Series U of 2001, Series A of 2002, and Series B of 2002. The swaps became effective upon the issuance of the respective bonds. The notional value of these swaps was approximately \$602 million at May 31, 2003. In February 2002, the Commission entered into a swap option (swaption) related to Series A of 2002 bonds. The Commission sold its option to terminate the swaption for a period of three years in exchange for an upfront payment of approximately \$10 million.

Facts That Will Impact Financial Position

In May 2003, the Commission approved a resolution for the issuance of Oil Franchise Tax Revenue Bonds. The proceeds from these bonds will be used to finance certain costs associated with Act 61 capital projects (currently the Mon-Fayette Expressway and Southern Beltway expansion projects). The aggregate amount of the new bonds will not exceed \$500 million. The Commission anticipates that the bond issuance will occur in August 2003.

The Commission's program and project managers continually monitor capital plan project budgets using a capital planning and project reporting system to ensure that planned spending is maintained within affordable, budgeted limits. Unplanned or unusual events are always a concern and can potentially impact the capital program's overall affordability. The Commission has a program management committee comprised of the Senior Executive staff that reviews the capital program with the program managers on an ongoing basis in order to monitor, manage and adjust project schedules and budgets to meet spending targets.

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

The Commission has completed a highway long range plan that documents condition assessments and overall highway project priorities for maintaining and improving the quality and safety of all roadways, bridges, tunnels and interchanges. This effort will enhance the capital planning and programming efforts to ensure the physical integrity of the Commission's toll road system.

Pennsylvania Turnpike Commission

Balance Sheets

| | May 31 | |
|-----------------------------------|-----------------------|--------------|
| | 2003 | 2002 |
| | <i>(In Thousands)</i> | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 277,602 | \$ 240,296 |
| Short-term investments | 27,864 | 35,294 |
| Accounts receivable | 21,737 | 20,180 |
| Accrued interest receivable | 5,427 | 13,421 |
| Inventories | 12,275 | 13,836 |
| Total current assets | 344,905 | 323,027 |
| Long-term investments | 665,313 | 764,971 |
| Capital assets: | | |
| Land | 123,955 | 121,380 |
| Buildings | 588,153 | 568,494 |
| Improvements other than buildings | 53,486 | 53,464 |
| Equipment | 271,279 | 250,938 |
| Infrastructure | 3,749,954 | 3,649,109 |
| Construction in progress | 431,702 | 334,128 |
| | 5,218,529 | 4,977,513 |
| Less accumulated depreciation | 2,510,943 | 2,284,059 |
| | 2,707,586 | 2,693,454 |
| Other assets: | | |
| Other assets | 47,553 | 37,062 |
| Deferred bond issuance costs | 19,605 | 22,427 |
| Total other assets | 67,158 | 59,489 |
| Total assets | \$ 3,784,962 | \$ 3,840,941 |

| | May 31 | |
|---|----------------------------|----------------------------|
| | 2003 | 2002 |
| | <i>(In Thousands)</i> | |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 107,234 | \$ 119,584 |
| Current portion of bonds payable | 42,370 | 48,595 |
| Total current liabilities | <u>149,604</u> | <u>168,179</u> |
| Bonds payable, less current portion, net of unamortized discount of \$3,244 in 2003 and \$6,674 in 2002 | 2,084,936 | 2,095,966 |
| Other noncurrent liabilities | 19,049 | 25,342 |
| | <u>2,103,985</u> | <u>2,121,308</u> |
| Total liabilities | <u>2,253,589</u> | <u>2,289,487</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 580,280 | 548,893 |
| Restricted for certain construction and maintenance purposes | 700,913 | 788,468 |
| Unrestricted | 250,180 | 214,093 |
| Total net assets | <u>1,531,373</u> | <u>1,551,454</u> |
| | | |
| Total liabilities and net assets | <u><u>\$ 3,784,962</u></u> | <u><u>\$ 3,840,941</u></u> |

See accompanying notes.

Pennsylvania Turnpike Commission

Statements of Revenues, Expenses, and Changes in Net Assets

| | Year ended May 31 | |
|---|-----------------------|---------------------|
| | 2003 | 2002 |
| | <i>(In Thousands)</i> | |
| Operating revenues: | | |
| Net fares | \$ 387,222 | \$ 375,751 |
| Other | 17,144 | 12,320 |
| | <u>404,366</u> | <u>388,071</u> |
| Operating expenses: | | |
| Cost of services | 233,542 | 216,077 |
| Depreciation | 229,485 | 183,707 |
| | <u>463,027</u> | <u>399,784</u> |
| Operating loss | (58,661) | (11,713) |
| Nonoperating revenues (expenses): | | |
| Oil company franchise tax revenues | 46,288 | 45,512 |
| Federal and state grants and reimbursements | 35,135 | 36,197 |
| Investment earnings | 62,787 | 60,783 |
| Interest expense | (105,630) | (115,279) |
| | <u>38,580</u> | <u>27,213</u> |
| Change in net assets | (20,081) | 15,500 |
| Net assets at beginning of year | <u>1,551,454</u> | <u>1,535,954</u> |
| Net assets at end of year | <u>\$ 1,531,373</u> | <u>\$ 1,551,454</u> |

See accompanying notes.

Pennsylvania Turnpike Commission

Statements of Cash Flows

| | Year ended May 31 | |
|--|--------------------------|-------------------|
| | 2003 | 2002 |
| | <i>(In Thousands)</i> | |
| Operating activities | | |
| Cash received from tolls/customers | \$ 410,047 | \$ 399,630 |
| Cash payments for goods and services | (135,211) | (115,288) |
| Cash payments to employees | (117,752) | (110,826) |
| Cash received from other operating activities | 15,222 | 8,671 |
| Net cash provided by operating activities | <u>172,306</u> | <u>182,187</u> |
| Investing activities | | |
| Payments for banking services | (552) | (1,032) |
| Proceeds from sales of investments, excluding cash equivalents | 9,302,213 | 5,610,437 |
| Proceeds from maturities of investments | 49,091 | 890,111 |
| Interest received on investments | 47,416 | 52,034 |
| Purchases of investments | (9,229,900) | (6,756,566) |
| Net cash provided by (used in) investing activities | <u>168,268</u> | <u>(205,016)</u> |
| Capital and related financing activities | | |
| Capital grants received | 7,042 | 7,738 |
| Acquisition of capital assets | (245,314) | (324,701) |
| Proceeds from sale of capital assets | 513 | 1,283 |
| Payments for bond expenses | (2,403) | (4,246) |
| Payments for redemption of revenue bonds | (477,923) | (523,598) |
| Interest paid on bonds | (107,116) | (103,007) |
| Proceeds from new bonds | 447,798 | 730,489 |
| Net cash used in capital and related financing activities | <u>(377,403)</u> | <u>(216,042)</u> |
| Noncapital financing activities | | |
| Cash proceeds from motor license grant | 28,000 | 28,000 |
| Cash proceeds from oil company franchise tax | 46,135 | 45,330 |
| Net cash provided by noncapital financing activities | <u>74,135</u> | <u>73,330</u> |
| Increase (decrease) in cash and cash equivalents | 37,306 | (165,541) |
| Cash and cash equivalents at beginning of year | 240,296 | 405,837 |
| Cash and cash equivalents at end of year | <u>\$ 277,602</u> | <u>\$ 240,296</u> |

Pennsylvania Turnpike Commission

Statements of Cash Flows (continued)

| | Year ended May 31 | |
|---|-------------------|-------------------|
| | 2003 | 2002 |
| <i>(In Thousands)</i> | | |
| Reconciliation of operating loss to net cash provided by operating activities | | |
| Operating loss | \$ (58,661) | \$ (11,713) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation | 229,485 | 183,707 |
| Change in operating assets and liabilities: | | |
| Accounts receivable, net of nonoperating receivables | (4,461) | (887) |
| Inventories | 1,876 | (3,409) |
| Other assets | 12 | 8 |
| Accounts payable and accrued liabilities, excluding interest payable | 10,348 | 6,038 |
| Other noncurrent liabilities | (6,293) | 8,443 |
| Net cash provided by operating activities | <u>\$ 172,306</u> | <u>\$ 182,187</u> |

Noncash Activities

The Commission recorded increases of \$18,967 and \$11,404 in the fair value of its investments for the years ended May 31, 2003 and 2002, respectively.

See accompanying notes.

Pennsylvania Turnpike Commission

Notes to Financial Statements

May 31, 2003

1. Financial Reporting Entity

The Pennsylvania Turnpike Commission (Commission) was created as an instrumentality of the Commonwealth of Pennsylvania on May 21, 1937, with powers to construct, operate, and maintain the Turnpike System and to issue Turnpike revenue bonds, repayable solely from tolls and other Commission revenues. The Commission is considered a component unit of the Commonwealth of Pennsylvania (Commonwealth). The Commission's basic financial statements are presented on the accrual basis flow of economic resources model.

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

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

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

2. Accounting Policies

Cash Equivalents

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

Investments

Investments are stated at fair value. Certain nonparticipating contracts such as repurchase agreements are reported at cost. Fair values are based on published market rates.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

Capital Assets

Capital assets are stated at cost. Donated capital assets are valued at their estimated fair market value on the date received. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Acquisitions of capital assets valued at \$15,000 or greater are capitalized. The following lives are used:

| | |
|-------------------------|-------------|
| Buildings | 10-40 years |
| Improvements | 15-20 years |
| Machinery and equipment | 3-45 years |
| Infrastructure | 20-50 years |

Inventories

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

Bond Discount and Issuance Costs

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

Operating Revenues

The principal operating revenues of the Commission are fare revenues from customers. Most other revenues of the Commission are considered nonoperating revenues.

Fare Revenues

Fare revenues are recognized when vehicles exit the Turnpike System. As of May 31, 2003 and 2002, approximately 79% and 90%, respectively, of the fare revenues were simultaneously realized through cash collection or a credit card program for commercial vehicles, with the remainder realized through electronic collection.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

Oil Company Franchise Tax Revenues

The Commission receives 14% of the additional 55 mills of the Commonwealth's Oil Company Franchise Tax revenues pursuant to Act 26 established in 1991. The revenues are recorded as nonoperating revenue. Such revenues totaled \$46.3 million and \$45.5 million for the fiscal years ended May 31, 2003 and 2002, respectively. As required by the applicable indenture, these revenues are kept in a separate fund. This fund's assets, which consisted of essentially cash and investments, aggregated \$292.4 million and \$283.9 million as of May 31, 2003 and 2002, respectively.

Grants

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

The Commission received \$28.0 million in a grant during each of fiscal years 2003 and 2002 from the Commonwealth's Motor License Fund. The revenue from this grant is recorded as nonoperating revenue. The Commission has elected to account for this grant in a separate fund. This fund's assets, which consisted essentially of cash and investments, totaled \$563.7 million and \$506.7 million as of May 31, 2003 and 2002, respectively.

Self-Insurance

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

The Commission recorded a liability of \$19.1 million and \$22.5 million for loss and loss adjustment expenses on claims relating to self-insurance that have been incurred but not reported as of May 31, 2003 and 2002, respectively. This liability is based on GASB

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

Self-Insurance (continued)

Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be recorded if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability is calculated based on the Commission's past loss experience. The liability was discounted using a rate of 3.5% and 3.5% as of May 31, 2003 and 2002, respectively. The liability includes amounts for claims adjustment expense and is net of any salvage and subrogation. Salvage and subrogation were not material for the years ended May 31, 2003 and 2002. 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 following summary provides aggregated information on self-insurance liabilities:

| Liability | Year ended May 31, 2003 | | | | | | Effects of Discount as of May 31, 2003 | May 31, 2003 Liability |
|-------------------------|-------------------------|--|-----------------|------------------|---------------|-----------------|--|------------------------|
| | June 1, 2002 | Effects of Discount as of June 1, 2002 | Incurred Claims | | Paid Claims | | | |
| | | | Current Year | Prior Years | Current Year | Prior Years | | |
| Workers' compensation | \$ 11,639 | \$ 3,207 | \$ 1,159 | \$(2,401) | \$ 482 | \$ 2,581 | \$ 2,559 | \$ 7,982 |
| Automobile/general tort | 10,890 | - | 707 | (182) | 88 | 225 | - | 11,102 |
| | <u>\$ 22,529</u> | <u>\$ 3,207</u> | <u>\$ 1,866</u> | <u>\$(2,583)</u> | <u>\$ 570</u> | <u>\$ 2,806</u> | <u>\$ 2,559</u> | <u>\$ 19,084</u> |

(In Thousands)

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

Self-Insurance (continued)

| | Year ended May 31, 2002 | | | | | | Effects of Discount as of May 31, 2002 | May 31, 2002 Liability |
|-------------------------|------------------------------|--|-----------------|-----------------|-----------------|-----------------|--|------------------------------|
| | June 1, 2001 Liability | Effects of Discount as of June 1, 2001 | Incurred Claims | | Paid Claims | | | |
| | | | Current Year | Prior Years | Current Year | Prior Years | | |
| <i>(In Thousands)</i> | | | | | | | | |
| Workers' compensation | \$ 8,186 | \$ 3,341 | \$ 1,511 | \$ 2,768 | \$ 440 | \$ 520 | \$ 3,207 | \$ 11,639 |
| Automobile/general tort | 12,506 | - | 596 | (1,333) | 54 | 825 | - | 10,890 |
| | <u>\$ 20,692</u> | <u>\$ 3,341</u> | <u>\$ 2,107</u> | <u>\$ 1,435</u> | <u>\$ 494</u> | <u>\$ 1,345</u> | <u>\$ 3,207</u> | <u>\$ 22,529</u> |

The foregoing reflects an adjustment for a redundancy of \$2.6 million and a deficiency of \$1.4 million in the May 31, 2003 and 2002, respectively, prior years' incurred claims that resulted from a change in estimate as more information became available.

Net Assets

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

Application of FASB Pronouncements

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

Adoption of New Accounting Pronouncements

On June 1, 2001, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. As a result of adoption of GASB Statement No. 33, the Commission has changed the reporting of capital grants from increases in contributed capital to nonoperating revenues.

Pennsylvania Turnpike Commission
Notes to Financial Statements (continued)

2. Accounting Policies (continued)

Adoption of New Accounting Pronouncements (continued)

Also on June 1, 2001, the Commission adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. As a result of adoption of GASB Statement No. 34, the Commission used the direct method for reporting its statement of cash flows, presented Management's Discussion and Analysis as required supplemental information, and made other classification and format changes to the financial statements.

3. Indenture Requirements and Restrictions

The Commission is required to maintain certain accounts with the Trustees as specified by the Indentures. Funds maintained in such accounts are restricted to use for construction, Turnpike System maintenance and operation, and debt service. Nonrestricted funds of \$250.2 million and \$214.1 million represent residual amounts after all mandatory transfers have been made as required by the Indentures and were included in cash, investments, and accounts receivable at May 31, 2003 and 2002, respectively.

4. Cash and Investments

Cash deposits are in seven financial institutions at May 31, 2003. 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> | |
| May 31, 2003 | | |
| Demand deposits | \$ 138,196 | \$ 131,761 |
| May 31, 2002 | | |
| Demand deposits | \$ 91,850 | \$ 72,689 |

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

4. Cash and Investments (continued)

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

The following is a categorization of investment securities and cash equivalents by risk and type:

| | May 31 | |
|--|-----------------------|-------------------|
| | 2003 | 2002 |
| | <i>(In Thousands)</i> | |
| Uninsured, unregistered, and held by the counterparty's trust department in the Commission's name: | | |
| United States Government obligations | \$ 393,714 | \$ 465,482 |
| Municipal obligations | 52,720 | 27,524 |
| Corporate bonds | 39,192 | — |
| Repurchase agreements | 77,010 | 99,425 |
| | <u>562,636</u> | <u>592,431</u> |
| Uncategorized: | | |
| Guaranteed investment income contracts | <u>276,382</u> | <u>375,441</u> |
| Total investment securities and cash equivalents | <u>\$ 839,018</u> | <u>\$ 967,872</u> |

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

5. Capital Assets

Net interest costs of \$6.5 million and \$1.5 million were capitalized as part of capital assets for the years ended May 31, 2003 and 2002, respectively. The amount capitalized includes interest costs incurred during the years ended May 31, 2003 and 2002, of \$9.2 million and \$1.5 million, respectively, net of \$2.7 million of interest earned on related investments acquired with revenue bond proceeds for 2003.

A summary of changes in the capital assets for the year ended May 31, 2003 and 2002 is as follows:

| | Balance June 1, 2002 | Additions | Transfers | Deletions | Balance May 31, 2003 |
|--|-------------------------|-----------|-----------|-----------|-------------------------|
| | <i>(In Thousands)</i> | | | | |
| Capitalized assets not being depreciated (cost) | | | | | |
| Land | \$ 121,380 | \$ 2,575 | \$ - | \$ - | \$ 123,955 |
| Construction in progress | 334,128 | 264,737 | (167,163) | - | 431,702 |
| Total capital assets not being depreciated | 455,508 | 267,312 | (167,163) | - | 555,657 |
| Capitalized assets being depreciated (cost) | | | | | |
| Buildings | 568,494 | - | 19,659 | - | 588,153 |
| Improvements | 53,464 | - | 22 | - | 53,486 |
| Machinery and equipment | 250,938 | 6,380 | 17,340 | 3,379 | 271,279 |
| Infrastructure | 3,649,109 | 6,229 | 130,142 | 35,526 | 3,749,954 |
| Total capital assets being depreciated | 4,522,005 | 12,609 | 167,163 | 38,905 | 4,662,872 |
| Less accumulated depreciation for: | | | | | |
| Buildings | 129,107 | 15,782 | - | - | 144,889 |
| Improvements | 29,723 | 2,378 | - | - | 32,101 |
| Machinery and equipment | 147,253 | 29,219 | - | - | 176,472 |
| Infrastructure | 1,977,976 | 187,974 | - | 8,469 | 2,157,481 |
| Total accumulated depreciation | 2,284,059 | 235,353 | - | 8,469 | 2,510,943 |
| Total capital assets being depreciated, net | 2,237,946 | (222,744) | 167,163 | 30,436 | 2,151,929 |
| Total capital assets | \$ 2,693,454 | \$ 44,568 | \$ - | \$ 30,436 | \$ 2,707,586 |

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

5. Capital Assets (continued)

| | Balance June 1, 2001 | Additions | Transfers | Deletions | Balance May 31, 2002 |
|--|-------------------------|------------|-----------|-----------|-------------------------|
| | <i>(In Thousands)</i> | | | | |
| Capitalized assets not being depreciated (cost) | | | | | |
| Land | \$ 119,180 | \$ 2,200 | \$ - | \$ - | \$ 121,380 |
| Construction | 869,432 | 297,542 | (832,836) | 10 | 334,128 |
| Total capital assets not being depreciated | 988,612 | 299,742 | (832,836) | 10 | 455,508 |
| Capitalized assets being depreciated (cost) | | | | | |
| Buildings | 468,815 | - | 99,679 | - | 568,494 |
| Improvements | 45,107 | - | 8,357 | - | 53,464 |
| Machinery and equipment | 185,541 | 5,542 | 60,423 | 568 | 250,938 |
| Infrastructure | 2,978,165 | 6,567 | 664,377 | - | 3,649,109 |
| Total capital assets being depreciated | 3,677,628 | 12,109 | 832,836 | 568 | 4,522,005 |
| Less accumulated depreciation for: | | | | | |
| Buildings | 115,268 | 13,839 | - | - | 129,107 |
| Improvements | 27,373 | 2,350 | - | - | 29,723 |
| Machinery and equipment | 125,119 | 22,134 | - | - | 147,253 |
| Infrastructure | 1,832,614 | 145,362 | - | - | 1,977,976 |
| Total accumulated depreciation | 2,100,374 | 183,685 | - | - | 2,284,059 |
| Total capital assets being depreciated, net | 1,577,254 | (171,576) | 832,836 | 568 | 2,237,946 |
| Total capital assets | \$ 2,565,866 | \$ 128,166 | \$ - | \$ 578 | \$ 2,693,454 |

Pennsylvania Turnpike Commission
Notes to Financial Statements (continued)

6. Bonds Payable

Bonds payable consist of the following:

| | May 31 | |
|---|-----------------------|--------------|
| | 2003 | 2002 |
| | <i>(In Thousands)</i> | |
| Revenue bonds payable: | | |
| 1992 Series O and P: Issued \$570,715 in September 1992 at 2.50% to 6.00%, due in varying installments through December 1, 2017 | \$ - | \$ 426,780 |
| 1998 Series Q: Issued \$53,000 in July 1998 at a variable rate, due in varying installments through June 1, 2028 | 53,000 | 53,000 |
| 2001 Series R: Issued \$186,025 in March 2001 at 5.00%, due in varying installments through December 1, 2030 | 186,025 | 186,025 |
| 2001 Series S: Issued \$244,925 in May 2001 at 3.40% to 5.60%, due in varying installments through June 1, 2015 | 232,355 | 244,925 |
| 2001 Series T: Issued \$86,660 in September 2001 at 4.10% to 5.50%, due in varying installments through December 1, 2013 | 86,660 | 86,660 |
| 2001 Series U: Issued \$169,820 in September 2001 at a variable rate, due in varying installments through December 1, 2019 | 169,820 | 169,820 |
| 2002 Series A: Issued \$288,265 in September 2002 at a variable rate, due in varying installments through December 1, 2030 | 288,265 | - |
| 2002 Series B: Issued \$160,880 in September 2002 at a variable rate, due in varying installments through December 1, 2012 | 144,310 | - |
| Total revenue bonds payable | 1,160,435 | 1,167,210 |
| Tax revenue bonds payable: | | |
| 1998 Series A and B Oil Company Franchise Tax Revenue: Issued \$538,880 in August 1998 at 3.85% to 5.50%, due in varying installments through December 1, 2027 | 498,080 | 507,960 |
| Registration fee revenue bonds payable: | | |
| 2001 Series: Issued \$476,065 in July 2001 at 3.00% to 5.50%, due in varying installments through July 15, 2041 | 472,035 | 476,065 |
| | 2,130,550 | 2,151,235 |
| Less unamortized discount: | | |
| (Includes unamortized discount relating to the 1998 Series A and B Oil Company Franchise Tax Revenue Bonds payable of \$6,590 and \$6,721 as of May 31, 2003 and 2002, respectively, and unamortized discount relating to the 2001 Registration Fee Bonds payable of \$6,701 and \$6,877 as of May 31, 2003 and 2002, respectively) | 3,244 | 6,674 |
| | 2,127,306 | 2,144,561 |
| Less current portion | 42,370 | 48,595 |
| | \$ 2,084,936 | \$ 2,095,966 |

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

6. Bonds Payable (continued)

Changes in bonds payable are as follows:

| | Balance at June 1, 2002 | Additions | Reductions | Balance at May 31, 2003 | Due Within One Year |
|--------------------------------|----------------------------|-------------------|-------------------|-------------------------------|------------------------|
| <i>(In Thousands)</i> | | | | | |
| Revenue bonds payable | \$ 1,167,210 | \$ 449,145 | \$ 455,920 | \$ 1,160,435 | \$ 27,780 |
| Tax revenue bonds payable | 507,960 | - | 9,880 | 498,080 | 10,290 |
| Registration fee bonds payable | 476,065 | - | 4,030 | 472,035 | 4,300 |
| | <u>\$ 2,151,235</u> | <u>\$ 449,145</u> | <u>\$ 469,830</u> | <u>\$ 2,130,550</u> | <u>\$ 42,370</u> |

| | Balance at June 1, 2001 | Additions | Reductions | Balance at May 31, 2002 | Due Within One Year |
|--------------------------------|----------------------------|-------------------|-------------------|-------------------------------|------------------------|
| <i>(In Thousands)</i> | | | | | |
| Revenue bonds payable | \$ 1,418,910 | \$ 256,480 | \$ 508,180 | \$ 1,167,210 | \$ 34,685 |
| Tax revenue bonds payable | 517,455 | - | 9,495 | 507,960 | 9,880 |
| Registration fee bonds payable | - | 476,065 | - | 476,065 | 4,030 |
| | <u>\$ 1,936,365</u> | <u>\$ 732,545</u> | <u>\$ 517,675</u> | <u>\$ 2,151,235</u> | <u>\$ 48,595</u> |

Interest on the bonds, except 1998 Series Q Revenue Bonds, Series U of 2001 Bonds, Series A and B of 2002, and Registration Fee Revenue Bonds 2001 Series is payable semiannually on June 1 and December 1 of each year. The interest on the 1998 Series Q Revenue Bonds, Series U Revenue Refunding Bonds, 2002 Series A and B Revenue Bonds is payable the first of every month. The interest on the 2001 Series Registration Fee Revenue Bonds is payable semiannually on January 15 and July 15 of each year.

On September 5, 2002, the Commission issued \$288.3 million in Series A Revenue Bonds and \$160.9 million in Series B Revenue Bonds. The proceeds of the bonds were used to advance refund the Commission's Series O and P Revenue Bonds. As a result of the Series A and B advance refundings, the Commission incurred losses of \$10.4 million and \$5.8 million, respectively, which will be amortized over the life of the new bonds. The advance refundings resulted in a decrease in debt service requirements at May 31, 2003 of \$11.8 million.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

6. Bonds Payable (continued)

In prior years as well as the current year, the Commission defeased certain revenue bonds by placing the proceeds of refunding bonds in irrevocable trusts to provide for all future debt service payments on the refunded 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, 2003, the Commission had no refunded bonds outstanding as all such bonds including the Series O and P Revenue Bonds have been redeemed.

Debt service requirements subsequent to May 31, 2003, are as follows:

| Year ending May 31 | Principal Maturities | Interest | Total |
|--------------------|-------------------------|--------------|--------------|
| | <i>(In Thousands)</i> | | |
| 2004 | \$ 42,370 | \$ 80,391 | \$ 122,761 |
| 2005 | 44,285 | 78,876 | 123,161 |
| 2006 | 48,495 | 77,207 | 125,702 |
| 2007 | 50,815 | 75,362 | 126,177 |
| 2008 | 53,285 | 73,382 | 126,667 |
| 2009-2013 | 309,075 | 329,602 | 638,677 |
| 2014-2018 | 396,805 | 255,828 | 652,633 |
| 2019-2023 | 234,240 | 161,027 | 395,267 |
| 2024-2028 | 484,490 | 112,846 | 597,336 |
| 2029-2033 | 267,950 | 1,381,655 | 1,649,605 |
| 2034-2038 | 17,945 | 35,372 | 53,317 |
| 2039-2041 | 180,795 | 7,816 | 188,611 |
| | \$ 2,130,550 | \$ 2,669,364 | \$ 4,799,914 |

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

6. Bonds Payable (continued)

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

| Year ending May 31 | Principal Maturities | Interest | Total |
|---------------------------|---------------------------------|-------------------|-------------------|
| | <i>(In Thousands)</i> | | |
| 2004 | \$ 10,290 | \$ 24,280 | \$ 34,570 |
| 2005 | 10,725 | 23,830 | 34,555 |
| 2006 | 11,195 | 23,338 | 34,533 |
| 2007 | 11,735 | 22,754 | 34,489 |
| 2008 | 12,335 | 22,134 | 34,469 |
| 2009-2013 | 72,210 | 99,805 | 172,015 |
| 2014-2018 | 93,770 | 77,699 | 171,469 |
| 2019-2023 | 21,835 | 12,382 | 34,217 |
| 2024-2028 | 253,985 | 6,019 | 260,004 |
| | <u>\$ 498,080</u> | <u>\$ 312,241</u> | <u>\$ 810,321</u> |

Debt service requirements subsequent to May 31, 2003 related to the 2001 Registration Fee Revenue Bonds only, are as follows:

| Year ending May 31 | Principal Maturities | Interest | Total |
|---------------------------|---------------------------------|-------------------|---------------------|
| | <i>(In Thousands)</i> | | |
| 2004 | \$ 4,300 | \$ 23,528 | \$ 27,828 |
| 2005 | 4,470 | 23,381 | 27,851 |
| 2006 | 4,615 | 23,219 | 27,834 |
| 2007 | 4,780 | 23,015 | 27,795 |
| 2008 | 4,980 | 22,791 | 27,771 |
| 2009-2013 | 28,495 | 110,128 | 138,623 |
| 2014-2018 | 36,490 | 101,552 | 138,042 |
| 2019-2023 | 47,255 | 90,290 | 137,545 |
| 2024-2028 | 47,250 | 76,371 | 123,621 |
| 2029-2033 | 90,660 | 58,709 | 149,369 |
| 2034-2038 | 17,945 | 35,372 | 53,317 |
| 2039-2041 | 180,795 | 7,816 | 188,611 |
| | <u>\$ 472,035</u> | <u>\$ 596,172</u> | <u>\$ 1,068,207</u> |

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

6. Bonds Payable (continued)

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

The 1998 Series A and Series B 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 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.

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

7. Retirement Benefits

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

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

7. Retirement Benefits (continued)

Membership in the System is mandatory for most Commission employees. The System provides retirement, death, and disability benefits which were established and can be amended according to statute. Retirement benefits vest after 5 years of credited service. Employees who retire at age 60, or with 35 years of service if under age 60, are entitled to an unreduced annual retirement benefit. The general annual benefit provided by statute is 2% of the member's highest three-year average salary times years of service. As of January 1, 2002 employees were given the opportunity to change retirement class which would provide a 2.5% rate.

Covered employees are required by statute to contribute to the System at a rate of 5% of their gross pay through December 31, 2001. Effective January 1, 2002, employees were given the opportunity to change class and increase their membership rate to 6.25%. The employees' contributions are recorded in an individually identified account which is also credited with interest, calculated quarterly to yield 4% per annum, as mandated by statute. Accumulated employee contributions and credited interest vest immediately and are returned to the employee upon termination of service if the employee is not eligible for other benefits.

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

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

| Year ended May 31 | Commission Required Contribution | % |
|-------------------|--|------|
| | <i>(Dollars are in millions)</i> | |
| 2003 | \$ 0.0 | 100% |
| 2002 | \$ 0.0 | 100% |
| 2001 | \$ 1.0 | 100% |

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

Pennsylvania Turnpike Commission
Notes to Financial Statements (continued)

8. Commitments and Contingencies

Litigation

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

Construction Commitments

At May 31, 2003, the Commission had contractual commitments for various Turnpike System improvement projects. A summary of construction commitments and their related funding source at May 31, 2003, is as follows:

| | Scheduled Completion Date | Estimated Project Cost | Contracts Awarded Through May 31, 2003 | Incurred Through May 31, 2003 |
|---|---------------------------------|------------------------------|--|--|
| <i>(In Thousands)</i> | | | | |
| Funded previously by 1998 Bonds and currently with Registration Fee Revenue Bonds 2001 Series: | | | | |
| Mon-Fayette Extension | 2010 | \$ 1,388,981 | \$ 322,526 | \$ 220,087 |
| Funded by operations and various bond proceeds: | | | | |
| Other construction projects | Various | 1,617,469 | 656,449 | 406,391 |
| | | \$ 3,006,450 | \$ 978,975 | \$ 626,478 |

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

8. Commitments and Contingencies (continued)

Forward Interest Rate Swaps

In June 2001, the Commission entered into three forward interest swap agreements on a portion of its debt to synthetically convert variable interest rates to fixed interest rates and thus hedge its variable rate exposure as well as preserve lower interest rates. These swaps were placed on the Series U Bonds of 2001, Series A Bonds of 2002 and Series B Bonds of 2002 with five different swap providers (counterparties). Based on these swap agreements, the Commission owes interest calculated at a fixed rate to the counterparties to the swaps. In return, the counterparties owe the Commission interest based on a variable rate that approximates the rate on the bonds. Only the net difference in interest payments is actually exchanged with the counterparties. The total notional amount of these swaps was approximately \$602 million at May 31, 2003. The \$602 million in bond principal is not exchanged, it is only the basis on which the interest payments are calculated. Additionally, the Commission continues to pay interest to the bondholders at the variable rate on the bonds.

In February 2002, the Commission entered into a swap option (swaption) related to Series A of 2002 bonds. The Commission sold its option to terminate the swaption in exchange for an upfront payment of approximately \$10 million that it has recorded as deferred revenue and will amortize into income over the life of the swaption.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

8. Commitments and Contingencies (continued)

Forward Interest Rate Swaps (continued)

Following is a summary of the swaps in place as of May 31, 2003. These swap agreements contain certain risks as described below.

| Swap | Notional Value | Final Maturity | Floating Rate Index (Receivable) | Fixed Rate (Payable) | Fair Value from (to) Counterparty |
|---------------|-----------------------|----------------|-----------------------------------|----------------------|-----------------------------------|
| Series U 2001 | \$ 127,365,000 | 12/1/2019 | 67% of 1 mo. LIBOR ⁽¹⁾ | 4.214% | \$ (20,771,543) |
| | 42,455,000 | 12/1/2019 | | | |
| Series A 2002 | 72,066,250 | 12/1/2030 | 67% of 1 mo. LIBOR ⁽¹⁾ | 4.403% | (14,814,603) |
| | 144,070,000 | 12/1/2030 | | | |
| | 72,066,250 | 12/1/2030 | | | |
| Series B 2002 | 36,077,500 | 12/1/2012 | BMA ⁽²⁾ | 4.538% | (3,637,251) |
| | 72,155,000 | 12/1/2012 | | | |
| | 36,077,500 | 12/1/2012 | | | |
| Total | <u>\$ 602,332,500</u> | | | | <u>\$(101,490,949)</u> |

⁽¹⁾ 1 month LIBOR was 1.32% at May 31, 2003

⁽²⁾ BMA was 1.19% at May 31, 2003

- **Credit Risk** – As of May 31, 2003, the Commission was not exposed to credit risk because all of the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the Commission would be exposed to credit risk in the amount of the derivatives' fair values. To mitigate the potential for credit risk, the swap agreements include collateral provisions in the event of downgrades to the swap counterparties' credit ratings. Collateral would be posted with a third-party custodian and would be in the form of cash, U. S. Treasury Obligations or U.S. Government Agency Securities. The credit ratings of the swap providers as of May 31, 2003 were AAA to AA- and Aaa to Aa3 by Standard & Poor's and Moody's, respectively.
- **Interest Rate Risk** – The Commission will be exposed to variable interest rates if one or more of the swap providers defaults or if a swap is terminated.
- **Basis Risk** – The underlying variable rates for the Commission's Series U and Series A bonds are based on BMA while the Series U and Series A swaps are based on a percentage of LIBOR. Therefore, the Commission is exposed to basis risk to the extent BMA exceeds 67% of one month LIBOR.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

8. Commitments and Contingencies (continued)

Forward Interest Rate Swaps (continued)

- **Termination Risk** – The swap document may be terminated due to a number of circumstances and the Commission retains the option to terminate the swap at any time. If the Commission were required to make a termination payment because of a termination event (by either party), then the Commission would have the option to enter into a new swap to match the remaining amortization of the underlying bonds and apply the payment it received toward the termination payment. It is the Commission's intent to maintain the swap transactions for the life of the financing.

9. Related Party Transactions

The Commission incurred costs to the Commonwealth of \$22.9 million and \$22.2 million related to its use of the Commonwealth's State Police in patrolling the Turnpike System in 2003 and 2002, respectively.

10. Postretirement Benefits

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

The Commission offers certain postretirement medical and prescription drug benefits to union employees who have reached 25 years of service and are under age 60. Benefit eligibility changes from 25 to 3 years of service for retirees 60 years of age or older.

As of May 31, 2003, 771 retirees were eligible for such benefits. The Commission has elected to account for the postretirement benefits on a pay as you go basis. The Commission's expense for postretirement benefits was \$2.1 million each in 2003 and 2002.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

11. Segment Information

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

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

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

| | Year ended May 31, 2003 | | | Total |
|--|-------------------------|---------------|---------------|-------------|
| | Mainline | Oil Franchise | Motor License | |
| Operating revenues: | | | | |
| Net fares | \$ 387,222 | \$ - | \$ - | \$ 387,222 |
| Other | 17,144 | - | - | 17,144 |
| | 404,366 | - | - | 404,366 |
| Operating expenses: | | | | |
| Cost of services | 233,410 | (135) | 267 | 233,542 |
| Depreciation | 229,485 | - | - | 229,485 |
| | 462,895 | (135) | 267 | 463,027 |
| Operating (loss) income | (58,529) | 135 | (267) | (58,661) |
| Nonoperating revenues (expenses): | | | | |
| Oil company franchise tax revenues | - | 46,288 | - | 46,288 |
| Federal and state grants and reimbursements | 1,780 | - | 33,355 | 35,135 |
| Investment earnings | 12,512 | 23,067 | 27,208 | 62,787 |
| Interest expense | (54,950) | (27,682) | (22,998) | (105,630) |
| | (40,658) | 41,673 | 37,565 | 38,580 |
| Change in net assets | \$ (99,187) | \$ 41,808 | \$ 37,298 | \$ (20,081) |

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

11. Segment Information (continued)

| | Year ended May 31, 2002 | | | Total |
|--|-------------------------|---------------|---------------|------------|
| | Mainline | Oil Franchise | Motor License | |
| Operating revenues: | | | | |
| Net fares | \$ 375,751 | \$ - | \$ - | \$ 375,751 |
| Other | 12,320 | - | - | 12,320 |
| | 388,071 | - | - | 388,071 |
| Operating expenses: | | | | |
| Cost of services | 214,512 | 1,833 | (268) | 216,077 |
| Depreciation | 183,707 | - | - | 183,707 |
| | 398,219 | 1,833 | (268) | 399,784 |
| Operating (loss) income | (10,148) | (1,833) | 268 | (11,713) |
| Nonoperating revenues (expenses): | | | | |
| Oil company franchise tax revenues | - | 45,512 | - | 45,512 |
| Federal and state grants and reimbursements | 4,475 | 739 | 30,983 | 36,197 |
| Investment earnings | 24,887 | 14,956 | 20,940 | 60,783 |
| Interest expense | (66,298) | (27,903) | (21,078) | (115,279) |
| | (36,936) | 33,304 | 30,845 | 27,213 |
| Change in net assets | \$ (47,084) | \$ 31,471 | \$ 31,113 | \$ 15,500 |

12. Subsequent Events

On May 6, 2003, the Commission approved a resolution for the defeasance of certain Oil Franchise Tax Revenue Senior Bonds, Series A of 1998 and Oil Franchise Tax Revenue Subordinate Bonds, Series B of 1998. The Commission will utilize both Oil Franchise Tax Revenue and Vehicle Registration Fee Revenue assets received prior to the issuance of the respective bond issues to provide sufficient funding for the defeasance. The defeasance occurred in July 2003.

On May 20, 2003, the Commission approved a resolution for the issuance of Oil Franchise Tax Revenue Bonds in an aggregate principal amount not to exceed \$500 million. The proceeds from these bonds will be used to finance certain costs associated with capital projects as defined under Commonwealth of Pennsylvania Act 61.

[This page intentionally left blank.]

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

[This page intentionally left blank.]

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

DEFINITIONS OF CERTAIN TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Bond Register" -- the register maintained pursuant to Section 205.

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

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

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

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

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

"Commonwealth" -- the Commonwealth of Pennsylvania.

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

"Conditional Redemption" -- a redemption of Bonds (1) that is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Trustee no later than the redemption date or (2) that the Commission retains the right to rescind such notice at any time prior to the scheduled redemption date if the Commission delivers a certificate of a Commission Official to the Trustee instructing the Trustee to rescind the redemption notice.

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

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

"Cost" -- all or any part of:

(a) the cost of construction, reconstruction, restoration, repair and rehabilitation of a Project or portion thereof (including, but not limited to, indemnity and surety bonds, permits, taxes or other municipal or governmental charges lawfully levied or assessed during construction),

(b) the cost of acquisition of all real or personal property, rights, rights-of-way, franchises, easements and interests acquired or used for such Project or portion thereof;

(c) the cost of demolishing or removing any structures on land so acquired, including the cost of acquiring any land to which the structures may be removed;

(d) any cost of borings and other preliminary investigations necessary or incident to determining the feasibility or practicability of constructing such Project and any cost necessary or desirable to satisfy conditions associated with the issuance of any permit for the construction thereof (including the costs of environmental mitigation required in connection therewith);

(e) the cost of all machinery and equipment, vehicles, materials and rolling stock;

(f) Issuance Costs;

(g) interest on Bonds and on any Reimbursement Obligation for the period prior to, during and for a period of up to one year after completion of construction as determined by the Commission, provisions for working capital, reserves for principal and interest and for extensions, enlargements, additions, replacements, renovations and improvements;

(h) the cost of architectural, engineering, environmental feasibility, financial and legal services;

(i) plans, specifications, estimates and administrative and other expenses which are necessary or incidental to the determination of the feasibility of constructing such Project or portion thereof or incidental to the obtaining of construction contracts or to the construction (including construction administration and inspection), acquisition or financing thereof and which constitute capital costs;

(j) Current Expenses, provided that, if applicable, the Trustee has received an opinion of Bond Counsel (which opinion may address either specific Current Expenses or categories of Current Expenses) to the effect that the treatment of such Current Expenses as a Cost will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes;

(k) the repayment of any loan or advance for any of the foregoing; and

(l) with respect to the use of Bond proceeds, such other costs and expenses as are permitted by the Enabling Acts at the time such Bonds are issued.

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

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

"Current Expenses" -- the Commission's reasonable and necessary current expenses of maintenance, repair and operation of the System, including, without limiting the generality of the foregoing, all premiums for insurance and payments into any self-insurance reserve fund, all administrative and engineering expenses relating to maintenance, repair and operation of the System, fees and expenses of

the Trustee and of the Paying Agents, Policy Costs, legal expenses and any other expenses required to be paid by the Commission as shown in the Annual Operating Budget for the System.

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

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

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

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

"Defeasance Securities" --

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

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

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

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

"DTC" -- The Depository Trust Company.

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

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

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

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

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

"Financial Guaranty Insurance Policy" shall mean the financial guaranty insurance policy issued by Ambac Assurance insuring the payment when due of the principal of and interest on the 2004A Bonds as provided therein.

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

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

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

"Government Obligations" --

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

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

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

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

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

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

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

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

"Indebtedness" -- any obligation or debt incurred for money borrowed.

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

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

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

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

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

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

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

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

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

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

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

(a) Bonds theretofore cancelled or delivered to the Trustee for cancellation under the Indenture;

(b) Bonds which are deemed to be no longer Outstanding in accordance with the provisions described under "The Indenture—Defeasance"; and

(c) Bonds in substitution for which other Bonds have been authenticated and delivered pursuant to the Indenture.

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

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

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

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

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

"Permitted Investments" -- (to the extent permitted by law)

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

(n) Any auction rate certificates which are rated by S&P, Moody's and Fitch in one of their two highest rating categories.

(o) Corporate bonds and medium term notes rated at least "AA-" by the Rating Agency.

(p) Asset-backed securities rated in the highest rating category by the Rating Agency.

(q) Any other investment approved by the Commission for which confirmation is received from the Rating Agency that such investment will not adversely affect such Rating Agency's rating on such Bonds.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Responsible Officer" -- when used with respect to the Trustee, any officer in the corporate trust department (or any successor thereto) of the Trustee, or any other officer or representative of the Trustee customarily performing functions similar to those performed by any of such officers and also means, with

respect to a particular corporate trust matter, any other officer of the Trustee to whom such matter is referred because of that officer's knowledge of and familiarity with the particular subject.

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

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

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

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

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

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

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

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

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

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

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

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

"Tender Indebtedness" -- any Indebtedness or portion thereof:

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

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

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

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

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

"U.S." -- United States of America.

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

THE INDENTURE

Limited Obligations

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

funds or assets of the Commission other than those pledged under the Indenture as security for the payment of the Bonds.

Payment on Bonds

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

Registration of Transfer and Exchange of Bonds: Persons Treated as Bondholders

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

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

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

Securities Depository Provisions

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

Additional Bonds

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

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

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

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

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

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

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

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

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

Approved and Parity Swap Obligations

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

before entering into the Swap Agreement (in which event such Swap Agreement shall constitute an "Approved Swap Agreement"):

- (a) A copy certified by a Commission Official of the resolution or resolutions of the Commission authorizing the execution and delivery of the Swap Agreement (no Supplemental Indenture being required unless the Commission determines it to be necessary or appropriate);
- (b) An original executed counterpart of the Swap Agreement;
- (c) An opinion of Bond Counsel addressed to the Commission and to the Trustee, to the effect that execution of the Swap Agreement is permitted under the laws of the Commonwealth and will not adversely affect the exclusion from gross income from interest on any Bonds for federal income tax purposes; provided that if the Swap Agreement relates to Bonds being issued and the Swap Agreement is entered into prior to the issuance of such Bonds, the portion of the opinion of Bond Counsel referring to tax-exempt status of the Bonds need not be delivered until such Bonds are issued;
- (d) A certificate of the Commission, signed by a Commission Official, that the Commission is not under default under the Indenture;
- (e) Evidence that the execution of the Swap Agreement will not result in a reduction or withdrawal of the rating then assigned to any Bonds by the Rating Agency;
- (f) Evidence that the provisions of paragraph (d) under "Limitation on Issuance of Additional Bonds and Execution of Swap Agreements" have been met; and
- (g) Such further documents as are required by the Swap Agreement or Bond Counsel.

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

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

Conversions of Variable Rate Indebtedness to Fixed Rate Indebtedness

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

Redemption of Bonds

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

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

Notice of Redemption

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

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

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

(c) On or before the date fixed for redemption, subject to the provisions of paragraphs (a) and (d), moneys shall be deposited with the Trustee to pay the principal of, redemption premium, if any, and interest accrued to the redemption date on the Bonds called for redemption. Upon the deposit of such moneys, unless the Commission has given notice of rescission as described in paragraph (d), the Bonds shall cease to bear interest on the redemption date and shall no longer be entitled to the benefits of the Indenture (other than for payment and transfer and exchange) and shall no longer be considered Outstanding.

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

Construction Fund

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

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

A 2004A Account of the Construction Fund is being created for the purpose of depositing and disbursing proceeds of the 2004A Bonds.

Rate Covenant

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

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

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

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

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

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

The Commission's failure to meet the Rate Covenant shall not constitute an Event of Default under the Indenture if (1) no Event of Default described in paragraphs (a) or (b) under "Events of Default" occurred as a result of such failure and (2) the Commission promptly after determining that the Rate Covenant was not met retains a Consultant at the expense of the Commission to make written recommendations as to appropriate revisions to the schedules of Tolls necessary or appropriate to meet the Rate Covenant and advises the Trustee in writing of such retention. Anything in the Indenture to the contrary notwithstanding, if the Commission shall comply with the recommendations of the Consultant in respect of Tolls, it will not constitute an Event of Default under the provisions of the Indenture if the Commission fails to meet the Rate Covenant during the succeeding Fiscal Year as long as no Event of Default described in paragraphs (a) or (b) under "Events of Default" has occurred. If the Commission does not comply with the recommendations of the Consultant in respect of Tolls, the Trustee may, and upon the request of the holders of not less than twenty-five per centum (25%) in principal amount of the Bonds then outstanding and upon being indemnified to its satisfaction shall, institute and prosecute in a court of competent jurisdiction any appropriate action to compel the Commission to revise the schedules of Tolls. The Commission covenants in the Indenture that it will adopt and charge Tolls in compliance with any final order or decree entered in any such proceeding.

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

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

Covenants as to Tolls

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

Any change in classification which results in a reduced Toll or any new classification shall be reviewed by the Commission with a Consultant before implementing the same unless the same is temporary (e.g., having a duration of less than one year). In addition, in the event the Commission did not meet the

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

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

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

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

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

Covenants of Commission

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

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

Annual Operating Budget; Capital Budget. The Commission covenants in the Indenture that on or before the 31st day of May (or such other date as is consistent with the Commission's policies then in

effect) in each Fiscal Year it will adopt a budget for the ensuing Fiscal Year (the "Annual Operating Budget"). Copies of each Annual Operating Budget shall be provided to the Trustee. Prior to adopting the Operating Budget, the Commission shall provide a draft of such budget to the Consulting Engineer sufficiently in advance of the adoption of such Annual Operating Budget in order for the Consulting Engineer to provide comments before such adoption. The Commission further covenants in the Indenture that it will prepare each such Annual Operating Budget on the basis of monthly requirements, so that it will be possible to determine the Current Expenses for each month during the Fiscal Year.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (a) it will maintain and operate the System in an efficient and economical manner,
- (b) it will maintain the System in good repair and will make all necessary repairs, renewals and replacements, to the extent funds are available therefor under the Indenture, and
- (c) it will comply with laws and all rules, regulations, orders and directions of any legislative, executive, administrative or judicial body applicable to such System, subject to the right of the Commission to contest the same in good faith and by appropriate legal proceedings.

Inspection of the System. The Commission shall make arrangements for the System to be inspected at least once every three years by engaging one or more Consultants to conduct the actual inspections and to prepare a report. Such report shall state (a) whether the System has been maintained in good repair, working order and condition since the last inspection report pursuant to this Section and (b)

any recommendations which such Consultants may have as to revisions or additions to the Commission's Annual Capital Budget. Copies of such reports shall be filed with the Trustee.

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

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

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

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

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

Employment of Consulting Engineers. The Commission covenants in the Indenture to employ an independent engineer or engineering firm or corporation having a national reputation for skill and experience in such work to perform any functions of the Consulting Engineer under the Indenture.

Insurance. The Commission covenants in the Indenture that it will keep the System and its use and operation thereof insured (including through self-insurance) at all times in such amounts, subject to such exceptions and deductibles and against such risks, as are customary for similar organizations. All insurance policies shall be carried with a responsible insurance company or companies authorized to do business in the Commonwealth or shall be provided under a self-insurance program; any self-insurance program shall be actuarially sound in the written opinion of an accredited actuary, which opinion shall be filed with the Trustee at least annually. At any time and from time to time, the Commission may elect to terminate self-insurance of a given type. Upon making such election, the Commission shall, to the extent then deemed necessary by a Consultant, obtain and maintain comparable commercial insurance.

On July 1, 2003 and every three years thereafter (except with respect to self-insurance, which shall be annually), the Commission shall cause a Consultant to certify to the Trustee that (a) it has reviewed the adequacy of the Commission's insurance, listing the types and amounts of insurance, and (b) it finds such coverage to be reasonable and customary for similar organizations. If the Consultant concludes that coverage other than that which is currently carried by the Commission should be carried, the Commission shall obtain such insurance coverage unless it determines in good faith that it is unreasonable or uneconomical to obtain such coverage and certifies the same in writing to the Trustee.

All insurance policies maintained by the Commission shall be available at reasonable times for inspection by the Trustee, its agents and representatives.

The Commission covenants that it will take actions as it deems necessary to demand, collect and sue for any proceeds that may become due and payable to it under any policy

Damage or Destruction. Immediately after any damage to or destruction of any part of the System which materially adversely affects the Revenues of the Commission, the Commission will promptly take action to repair, reconstruct or replace the damaged or destroyed property or to otherwise ameliorate the adverse impact on Revenues.

Annual Audit. The Commission covenants in the Indenture that it will cause an annual audit to be made of its books and accounts of each Fiscal Year by an independent certified public accountant. A copy of such audit shall be filed with the Trustee promptly after the receipt by the Commission for such purpose.

Encumbrance of Revenues; Sale, Lease or Other Disposition of Property. The Commission covenants in the Indenture that so long as any Bonds are Outstanding under the Indenture,

(a) (1) it will not create or suffer to be created any lien or charge upon any Revenues, except the lien and charge of the Bonds secured hereby and any Subordinated Indebtedness permitted pursuant to the provisions of the Indenture; and (2) from such Revenues or other funds available under the Indenture, it will pay or cause to be discharged, or will make adequate provision to pay or discharge, within ninety (90) days after the same shall accrue, all lawful claims and demands for labor, materials or supplies which, if unpaid, might by law become a lien upon any Revenues; provided, however, that the Commission shall not be required to pay or discharge, or make provision for such payment or discharge of, any such lien or charge so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings.

(b) the Commission will not sell or otherwise dispose of any real estate or personal property comprising a portion of the System unless the Commission determines

(1) such property (i) has become obsolete or worn out or is reasonably expected to become so within one year after the date of such disposition, (ii) is no longer used or useful in the operation of the System or in the generation of Revenues or (iii) is to be or has been replaced by other property; or

(2) by resolution that such action will not materially adversely affect the Net Revenues of the Commission.

The Commission shall have the discretion to deposit the proceeds of such sale or disposition in a fund or account held under the Indenture or a Commission account held outside the Indenture, as it deems appropriate. In the event the Commission did not meet the Rate Covenant during the preceding Fiscal Year, however, then the Commission shall notify the Trustee of the sale or disposition of any property which generated Net Revenues in excess of one percent of the Commission's Net Revenues during the prior Fiscal Year and all proceeds from such sale or disposition shall be deposited in the Revenue Fund.

(c) the Commission will not lease any real estate or personal property comprising a portion of the System unless the Commission determines by resolution that such action will not materially adversely affect the Net Revenues of the Commission. The rental and other proceeds from any lease shall not be required to be deposited in the Revenue Fund unless the effect of such lease is to reduce Tolls.

Without intending to limit the foregoing, the Commission also may enter into contracts or other forms of agreement for the use of any real estate comprising a portion of the System including, but not limited to, rights of way for telephone, telegraph, optic fiber and other forms of communication, electric, gas transmission and other lines or facilities for utilities, and other uses which do not materially adversely affect the operation of the System and the payments received in connection with the same shall be deposited in such accounts (which may be outside the Indenture) as the Commission shall determine.

Creation of Funds

In addition to the Construction Fund and any other funds created by Supplemental Indentures, the Indenture creates the following funds: Revenue Fund; Debt Service Fund; Debt Service Reserve Fund;

Reserve Maintenance Fund; General Reserve Fund; and Rebate Fund. Amounts deposited therein shall be held in trust by the Trustee until applied as directed in the Indenture.

Revenue Fund: Agreements With Other Turnpikes

The Commission covenants in the Indenture that all Revenues will be deposited daily, as far as practicable, with the Trustee or in the name of the Trustee with a Depository or Depositories, to the credit of the Revenue Fund.

The Indenture provides that, to the extent now or hereafter authorized by law, the Commission may enter into agreements with any commission, authority or other similar legal body operating a turnpike, whether or not connected to the System, (1) with respect to the establishment of combined schedules of Tolls and/or (2) for the collection and application of Tolls charged for trips over all or a portion of both turnpikes combined, which on the basis of the Revenues to be received by any such agreement will result in the receipt by the Commission of its allocable portion of such Tolls (less fees and expenses associated with such arrangement). To the extent now or hereafter authorized by law, the Commission also may enter into agreements with other Persons with respect to the collection of Tolls or advances or prepayment of Tolls charged for trips over all or a portion of the System, which on the basis of the Revenues to be received by any such agreement will result in the receipt by the Commission of the appropriate Tolls for such trips. Unless approved by a Consultant, no agreement establishing a combined schedule of Tolls shall restrict the ability of the Commission to implement an increase in its Tolls at least annually.

Amounts received by the Commission from such other commission, authority or other similar legal body or Person, in accordance with such agreements, shall be deposited in the Revenue Fund when they constitute Revenues. Such amounts may be held with one of the depositaries noted in Subsection 504(a) until they constitute Revenues. Amounts received by the Commission and deposited in the Revenue Fund which are payable by the Commission to such other commission, authority or other similar legal body or Person, in accordance with any such agreements, shall be withdrawn by the Trustee from the Revenue Fund upon delivery to the Trustee of a certificate of a Commission Official that such withdrawal is required pursuant to the terms of an agreement entered into pursuant to this Section and shall be paid by the Trustee in accordance with directions contained in such certificate. Any agreement entered into pursuant to this Section shall be made available to the Trustee upon its request.

Except as otherwise provided in the provisions described under this heading, transfers from the Revenue Fund shall be made to the following funds and in the following order of priority:

- (1) Rebate Fund;
- (2) Operating Account;
- (3) Debt Service Fund;
- (4) Reserve Maintenance Fund;
- (5) Debt Service Reserve Fund; and
- (6) General Reserve Fund (after retaining such funds in the Revenue Fund as are identified in the certificate described below under "General Reserve Fund").

Operating Account

The Indenture provides that the Commission shall establish an account known as the "Operating Account" which shall be held by the Commission in the name of the Commission outside of the Indenture until applied as directed in the Indenture. The Trustee shall transfer from the Revenue Fund on or before the last Business Day of each month to the credit of the Operating Account an amount equal to (a) the amount shown by the Annual Operating Budget to be necessary to pay Current Expenses for the ensuing

month and (b) an amount certified by a Commission Official as being reasonably necessary to pay Current Expenses which are expected for such month, after taking into account the amount on deposit in the Operating Account (including the amount described in clause (a)).

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

Debt Service Fund

The Indenture creates two separate accounts in the Debt Service Fund to be known as the "Interest Account" and the "Principal Account."

The Trustee and the Commission may create such additional accounts in the Debt Service Fund pursuant to a Supplemental Indenture as they deem necessary or appropriate, including, but not limited to, (a) an account into which drawings on a Credit Facility are to be deposited and from which principal (including redemption price) and Purchase Price of and interest on the Series of Bonds secured by such Credit Facility are to be paid (and upon such payment, amounts on deposit in the Principal and Interest Accounts for such Bonds shall be used to repay the provider of the Credit Facility for such payments), and (b) an account into which payments to the Commission to any Parity Swap Counterparty are to be deposited and from which payments to such Parity Swap Counterparty are to be paid.

On or before the last Business Day preceding each Interest Payment Date or principal (or sinking fund redemption) date of each month or such other day as set forth in a Supplemental Indenture, after making the deposits to the Operating Account described above, the Trustee shall withdraw from the Revenue Fund and deposit to the applicable Account in the Debt Service Fund (or to a Series Credit Facility Fund in lieu of either of the foregoing) the amounts due on any Parity Obligation.

The moneys in the Interest and Principal Accounts shall be held by the Trustee in trust for the benefit of the Bonds, to the extent the foregoing are payable from such accounts, and, to said extent and pending application, shall be subject to a lien and charge in favor of the Owners of the Bonds until paid out or transferred as provided in the Indenture. There shall be withdrawn from the Interest Account (and any available capitalized interest) and the Principal Account from time to time and set aside or deposited with the Trustee sufficient money for paying the interest on and the principal of and premium on the Bonds as the same shall become due, except to the extent such interest, principal or other amounts are payable from a fund or account other than the Debt Service Fund as provided in any Supplemental Indenture.

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

A 2004A Account of the Debt Service Fund is being created for the purpose of depositing and disbursing funds for payment of debt service on the 2004A Bonds.

Reserve Maintenance Fund

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

Except as provided above with respect to the Debt Service Fund, or except in case of an emergency, as characterized in a certificate signed by a Commission Official stating that the moneys to the

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

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

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

Debt Service Reserve Fund

The Indenture establishes a Debt Service Reserve Fund and provides that a special account within the Debt Service Reserve Fund may be created with respect to each series of Debt Service Reserve Fund Bonds issued under the Indenture and any Supplemental Indenture.

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

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

Moneys held in the Debt Service Reserve Fund shall be used for the purpose of paying interest on, maturing principal and mandatory sinking fund redemption price of Debt Service Reserve Fund Bonds whenever and to the extent that the moneys held for the credit of the Debt Service Fund shall be insufficient for such purpose. If at any time the moneys and the principal amount of any DSRF Security held in the Debt Service Reserve Fund shall exceed the Debt Service Reserve Requirement, the Commission shall direct whether such excess moneys shall be transferred by the Trustee to the credit of the General Reserve Fund or used to reduce the principal amount of any DSRF Security.

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

In lieu of the deposit of moneys into the Debt Service Reserve Fund, the Commission may cause to be provided a surety bond, an insurance policy, a letter of credit or similar financial instrument satisfactory to the Rating Agency (as evidenced by a letter from the Rating Agency confirming that the DSRF Security will not result in the rating on any outstanding Bonds being downgraded) (each, a "DSRF Security") payable to the Trustee for the benefit of the Bondholders in an amount equal to the difference between the Debt Service Reserve Requirement and the amounts then on deposit in the Debt Service

Reserve Fund. The DSRF Security shall be payable (upon the giving of notice as required thereunder) on any Interest Payment Date on which moneys will be required to be withdrawn from the Debt Service Reserve Fund and applied to the payment of the principal of or interest on any Bonds to the extent that such withdrawals cannot be made by amounts on deposit in the Debt Service Reserve Fund.

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

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

General Reserve Fund

After first having made the deposits to the Operating Account, Debt Service Fund, Reserve Maintenance Fund and Debt Service Reserve Fund described above, the Trustee shall transfer from the Revenue Fund on or before the last Business Day of each year (or more frequently if the Commission determines that excess funds are on deposit in the Revenue Fund) to the credit of the General Reserve Fund the balance, if any, remaining after making such deposits and after reserving such amounts, if any, identified in a certificate of a Commission Official as being reserved for future transfers to the Debt Service Fund.

Moneys in the General Reserve Fund may be expended by the Commission to restore deficiencies in any funds or accounts created under the Indenture and, absent any such deficiency, for any of the following purposes, with no one item having priority over any of the others:

- (a) To purchase or redeem Bonds;
- (b) To secure and pay the principal or redemption price of and interest on any Subordinated Indebtedness;
- (c) To make payments into the Construction Fund;
- (d) To fund improvements, extensions and replacements of the System; or
- (e) To further any corporate purpose.

The Trustee is authorized to apply monies on deposit in the General Reserve Fund for any of such purposes upon receipt of a requisition signed by a Commission Official, stating in respect of each payment to be made:

- (a) the name of the Person, firm or corporation, to whom payment is to be made or, if the payment is to be made to a fund or account held by the Trustee under the Indenture or to a fund or account held by the Commission and not subject to the Indenture, the name of such fund or account,
- (b) the amount to be paid, and
- (c) the purpose for which the payment is to be made.

Rebate Fund

The Indenture authorizes the creation of a Rebate Fund. The Commission covenants in the Indenture to calculate and to pay directly to the government of the United States of America all amounts due for payment of "arbitrage rebate" under Section 148(f) of the Code with respect to any Bonds. Nevertheless, the Commission in the future may deposit with the Trustee or direct the Trustee to deposit in the Rebate Fund amounts held in any Fund under the Indenture for any or all Series of Bonds (which direction shall specify the procedures for collection and payment of amounts due in respect of arbitrage rebate) if (a) required under any amendments to Section 148(f) of the Code or (b) the Commission otherwise determines that the funding of the Rebate Fund is necessary or appropriate. The Rebate Fund is a trust fund but the amounts therein do not constitute part of the Trust Estate. Amounts on deposit in the Rebate Fund may be used solely to make payments to the United States of America under Section 148 of the Code and to pay costs related to the calculation of the amounts due. Upon satisfaction of the Commission's covenants described above, any amounts remaining in the Rebate Fund shall be deposited in the General Reserve Fund.

Additional Security: Parity with Other Parity Obligations

Except as otherwise provided or permitted in the Indenture, the Trust Estate securing all Bonds issued under the terms of the Indenture shall be shared on a parity with other Parity Obligations on an equal and ratable basis. The Commission may, however, in its discretion, provide additional security or credit enhancement for specified Parity Obligations with no obligation to provide such additional security or credit enhancement to other Parity Obligations, except that no additional security or credit enhancement shall be provided unless there shall have been first delivered to the Trustee an opinion of Bond Counsel that the exclusion from gross income of interest on any Bonds for federal income tax purposes will not be adversely affected thereby. Moreover, the Commission may provide in a Supplemental Indenture that Bonds issued thereunder are not secured, or are secured only in part or only under certain circumstances, by the Trust Estate.

Depositaries; Investment of Moneys

Except as otherwise provided in the Indenture, all moneys received by the Commission under the provisions of the Indenture shall be deposited with the Trustee or with one or more Depositaries. All moneys deposited under the provisions of the Indenture with the Trustee or any other Depositary shall be held in trust, credited to the particular fund or account to which such moneys belong and applied only in accordance with the provisions of the Indenture. No moneys shall be deposited with any Depositary, other than the Trustee, in an amount exceeding fifty per centum (50%) of the amount which an officer of such Depositary shall certify to the Commission as the combined capital and surplus of such Depositary. All moneys deposited with the Trustee or any other Depositary under the Indenture shall, to the extent not insured, be secured in the manner required or permitted by applicable law.

Moneys held in any of the funds or accounts under the Indenture may be retained uninvested, if deemed necessary by the Commission, as trust funds and secured as provided above or may be invested in Permitted Investments. All investments shall be made by the Trustee upon the oral request of the Commission, which is confirmed in writing by a Commission Official specifying the account or fund from which moneys are to be invested and designating the specific Permitted Investments to be acquired.

All investments made pursuant to this Section shall be subject to withdrawal or shall mature or be subject to repurchase or redemption by the holder, not later than the earlier of (a) the date or dates set forth for similar investments in the applicable Supplemental Indenture or (b) the date on which the moneys may reasonably be expected to be needed for the purpose of the Indenture.

Investments acquired with the moneys in any fund or account shall be a part of such fund or account and, for the purposes of determining the amount in such fund or account, shall be valued at their

then fair market value. The interest or income received on an investment shall remain in the fund or account to which the investment is credited except to the extent otherwise provided in the applicable Supplemental Indenture.

The Trustee shall withdraw, redeem or sell all or a portion of any investment upon receipt of the written direction from the Commission or upon a determination by the Trustee that moneys in such fund or account are to be applied or paid by the Trustee pursuant to the provisions of the Indenture, and the proceeds thereof shall be deposited by the Trustee in the appropriate fund or account. Neither the Trustee nor the Commission shall be liable or responsible for any depreciation in the value of the Permitted Investments or for any losses incurred upon any unauthorized disposition thereof.

Each fund held under the Indenture shall be valued by the Trustee at least once annually within thirty days after the end of each Fiscal Year.

Events of Default

Each of the following is an "Event of Default" under the Indenture:

- (a) Default in the payment of any installment of principal, redemption premium, if any, interest or other amount due on any Bond when the same becomes due and payable;
- (b) Default in the payment by the Commission of any other Parity Obligation;
- (c) Subject to the provisions of Section 807, default in the performance or breach of any covenant, warranty or representation of the Commission contained in the Indenture (other than a default under subsections (a) and (b) of this Section);
- (d) The occurrence of any Event of Default under any Supplemental Indenture; or
- (e) (1) The occurrence of an Event of Bankruptcy of the Commission; (2) the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or other similar official of the Commission or of any substantial portion of its property, which appointment shall not have been rescinded or stayed within ninety (90) days after taking effect; or (3) the ordering of the winding up or liquidation of the affairs of the Commission.

No default under paragraph (c) above under "Events of Default" shall constitute an Event of Default until written notice of such default shall have been given to the Commission by the Trustee or by the holders of at least 25% in aggregate principal amount of the Bonds Outstanding, and the Commission shall have had thirty (30) days after receipt of such notice to correct such default or cause such default to be corrected, and shall have failed to do so. In the event, however, that the default is such that it cannot be corrected within such thirty (30) day period, it shall not constitute an Event of Default if corrective action is instituted by the Commission within such period and diligently pursued (as determined by the Trustee) until the default is corrected.

Remedies Upon Default

If an Event of Default occurs and is continuing, the Trustee may, and upon the written request to the Trustee by the holder or holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall, subject to the requirement that the Trustee be provided with indemnity satisfactory to it, by written notice to the Commission, declare the principal and interest on of the Bonds to the date of acceleration to be immediately due and payable.

At any time after such a declaration of acceleration has been made and before the entry of a judgment or decree for payment of the money due, the Trustee may, or the holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding, may by written notice to the

Commission and the Trustee, and subject to the provision to the Trustee of satisfactory indemnity, direct the Trustee to rescind and annul such declaration and its consequences if:

(1) there has been paid to or deposited with the Trustee by or for the account of the Commission, or provision satisfactory to the Trustee has been made for the payment of a sum sufficient to pay: (i) all overdue installments of interest on the Bonds; (ii) the principal of and redemption premium, if any, on any Bonds which have become due other than by such declaration of acceleration and interest thereon; (iii) all amounts due on other Parity Obligations; (iv) to the extent lawful, interest upon overdue installments of interest and redemption premium, if any; and (v) all sums paid or advanced by the Trustee under the Indenture, together with the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and Counsel prior to the date of notice of rescission; and

(2) all Events of Default, other than those described in paragraphs (a) and (b) above under "Events of Default", if any, which have occasioned such acceleration, have been cured or waived.

No such rescission and annulment shall affect any subsequent default or impair any consequent right.

Additional Remedies

The Trustee, upon the occurrence of an Event of Default may, and upon the written request of the holders of not less than a majority in aggregate principal amount of the Bonds Outstanding and subject to the requirement that the Trustee be provided with satisfactory indemnity, shall proceed to protect and enforce its rights and the rights of the holders of the Bonds under the Indenture by a suit or suits in equity or at law, either for the specific performance of any covenant or agreement contained in the Indenture or in aid of the execution of any power in the Indenture granted, or for the enforcement of any other appropriate legal or equitable remedy, and the Trustee in reliance upon the advice of Counsel may deem most effective to protect and enforce any of the rights or interests of the Bondholders under the Bonds or the Indenture.

Trustee May File Proofs of Claim

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding under the Bankruptcy Law relating to the Commission, any other obligor upon the Bonds or any property of the Commission, the Trustee (whether or not the principal of the Bonds shall then be due and payable by acceleration or otherwise, and whether or not the Trustee shall have made any demand upon the Commission for the payment of overdue principal, redemption premium, if any, and interest) shall be entitled and empowered, by intervention in such proceeding or other means:

(1) to file and prove a claim for the whole amount of the principal, redemption premium, if any, and interest owing and unpaid in respect of the Bonds then Outstanding or for breach of the Indenture and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and Counsel) and of the holders allowed in such proceeding; and

(2) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any receiver, assignee, trustee, liquidator, sequestrator or similar official in any such judicial proceeding is hereby authorized by each holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and Counsel, and any other amounts due the Trustee under the Indenture. However, no provision of

the Indenture empowers the Trustee to authorize or consent to or accept or adopt on behalf of any Bondholders any plan of reorganization, arrangement, adjustment or composition affecting any of the Bonds or the rights of any holder thereof, or to authorize the Trustee to vote in respect of the claim of any holder in any proceeding described in the preceding paragraph.

Priority of Payment Following Event of Default

Any portion of the Trust Estate held or received by the Trustee, by any receiver or by any Bond Owner pursuant to any right given or action taken under the provisions of this Article, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the fees, expenses and liabilities incurred by the Trustee and the transfer to Secured Owners (other than Owners of the Bonds) of amounts to which they are entitled by virtue of their parity position, shall be deposited and applied as follows:

(a) If the principal of all the Bonds then Outstanding and the interest accrued thereon has been declared to be due and payable immediately pursuant to the acceleration provisions described above (or, but for any legal prohibition on such declaration of acceleration, such principal and interest would have been declared to be due and payable immediately pursuant to such Section or the provisions of any applicable Reimbursement Agreement) and such declaration has not been rescinded and annulled, there shall be deposited into the Debt Service Fund moneys sufficient to pay the amounts described in clauses (i), (ii) and (iii) below, and all such moneys shall be applied, as promptly as practicable (but subject to the provisions of the last paragraph of this Section), proportionately to

(i) the payment to the persons entitled thereto of all payments of interest then due on the Bonds with interest on overdue installments, if lawful, at their respective rates from the respective dates upon which they became due, in the order of maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment;

(ii) the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due (or which but for any legal prohibition on such declaration of acceleration would have become due) with interest on such Bonds at their respective rates from the respective dates upon which they became due and, if the amount available shall not be sufficient to pay in full the Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, in each case to the persons entitled thereto, without any discrimination or privilege;

(iii) the payment of any other amounts then owing under the Indenture; and, after said deposit into the Debt Service Fund, there shall be paid the Subordinated Indebtedness issued or incurred by the Commission pursuant to the Indenture.

(b) If the principal of and interest on all Bonds then Outstanding and has not been declared to be due and payable immediately pursuant to the acceleration provisions described above (or deemed to be due and payable as contemplated in paragraph (a) above) or if such a declaration has been rescinded and annulled, then there shall be deposited into the Debt Service Fund moneys sufficient to pay the amounts described in clauses (i), (ii) and (iii) below, and all such moneys shall be applied, as promptly as practicable (but subject to the provisions of the last paragraph of this Section),

(i) first, to the payment to the persons entitled thereto of all installments of interest then due on the Bonds, with interest on overdue installments, if lawful, at their respective rates from the respective dates upon which they became due, in the order of maturity and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment;

(ii) second, to the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due with interest on such Bonds at their respective rates from the

respective dates upon which they became due and, if the amount available shall not be sufficient to pay in full the Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, in each case to the persons entitled thereto, without any discrimination or privilege; and

(iii) third, to the payment of any other amounts then owing under the Indenture, and, after said deposit into the Debt Service Fund, there shall be paid the Subordinated Indebtedness issued or incurred by the Commission pursuant to the Indenture.

Whenever moneys are to be applied pursuant to the provisions of this Section, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal and interest to be paid on such date shall cease to accrue. The Trustee shall give notice of the deposit with it of any such moneys and of the fixing of any such date by mail to all Owners of Bonds with respect to which the Event of Default occurred and shall not be required to make payment to any Bond Owner until such Bonds shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Bondholders May Direct Proceedings

The owners of a majority in aggregate principal amount of the Bonds Outstanding shall, subject to the requirement that the Trustee be provided with satisfactory indemnity, have the right, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings by the Trustee under the Indenture, provided that such direction shall not be in conflict with any rule of law or the Indenture and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unduly prejudicial to the rights of Bondholders not parties to such direction or would subject the Trustee to personal liability or expense. Notwithstanding the foregoing, the Trustee shall have the right to select and retain Counsel of its choosing to represent it in any such proceedings. The Trustee may take any other action which is not inconsistent with any direction under this provision.

Limitations on Rights of Bondholders

No Bondholder shall have any right to pursue any other remedy under the Indenture or the Bonds unless: (1) an Event of Default shall have occurred and is continuing; (2) the owners of not less than a majority in aggregate principal amount of all Bonds then Outstanding have requested the Trustee, in writing, to exercise the powers hereinabove granted or to pursue such remedy in its or their name or names; (3) the Trustee has been offered indemnity satisfactory to it against costs, expenses and liabilities reasonably anticipated to be incurred; (4) the Trustee has declined to comply with such request, or has failed to do so, within sixty (60) days after its receipt of such written request and offer of indemnity; and (5) no direction inconsistent with such request has been given to the Trustee during such 60 day period by the holders of a majority in aggregate principal amount of the Bonds Outstanding.

The provisions of the preceding paragraph are conditions precedent to the exercise by any Bondholder of any remedy under the Indenture. The exercise of such rights is further subject to the provisions described under "Limitations on Rights of Bondholders" above and "Unconditional Right of Bondholder to Receive Payment" and "Delay or Omission Not Waiver" below. No one or more Bondholders shall have any right in any manner whatever to enforce any right under the Indenture, except in the manner provided in the Indenture. All proceedings at law or in equity with respect to an Event of Default shall be instituted and maintained in the manner provided in the Indenture for the equal and ratable benefit of the Bondholders of all Bonds Outstanding.

Rights and Remedies Cumulative

No right or remedy in the Indenture conferred upon or reserved to the Trustee is intended to be exclusive of any other right or remedy, but each such right or remedy shall, to the extent permitted by law, be cumulative of and in addition to every other right or remedy given under the Indenture or now or hereafter existing at law, in equity or otherwise. The assertion or employment of any right or remedy under the Indenture shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Delay or Omission Not Waiver

No delay or omission by the Trustee or any Bondholder to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of such Event of Default. Every right and remedy given by this Article or by law to the Trustee or the Bondholders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or the Bondholders, as the case may be.

Waiver of Defaults

The holders of a majority in aggregate principal amount of the Outstanding Bonds may, by written notice to the Trustee and subject to the requirement that the Trustee be provided with satisfactory indemnity, waive any existing default or Event of Default and its consequences, except an Event of Default under paragraph (a) or (b) under "Events of Default." Upon any such waiver, the default or Event of Default shall be deemed cured and shall cease to exist for all purposes. No waiver of any default or Event of Default shall extend to or effect any subsequent default or Event of Default or shall impair any right or remedy consequent thereto.

Notwithstanding any provision of the Indenture, in no event shall any Person, other than all of the affected Bondholders, have the ability to waive any Event of Default under the Indenture if such event results or may result, in the opinion of Bond Counsel, in interest on any of the Bonds becoming includable in gross income for federal income tax purposes if the interest on such Bonds was not includable in gross income for federal income tax purposes prior to such event.

Notice of Events of Default

If an Event of Default occurs of which the Trustee has or is deemed to have notice under the Indenture, the Trustee shall give Immediate Notice thereof to the Commission. Within 90 days thereafter (unless such Event of Default has been cured or waived), the Trustee shall give notice of such Event of Default to each Bondholder then Outstanding, provided, however, that except in the instance of an Event of Default described in paragraph (a) or (b) above under "Events of Default," the Trustee may withhold such notice if and so long as the Trustee in good faith determines that the withholding of such notice does not materially adversely affect the interests of Bondholders, and provided, further, that notice to Bondholders of any Event of Default under paragraph (c) under "Events of Default" shall be subject to the provisions described above relating to cure of such defaults and shall not be given until the grace period has expired.

The Trustee: Qualifications of Trustee

The Indenture contains provisions relating to the appointment and duties of the Trustee. The trustee under the Indenture shall be a corporation or banking association organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, which has a combined capital and surplus of at least \$50,000,000, or is an affiliate of, or has a contractual relationship with, a corporation or banking association meeting such capital and surplus requirement which guarantees the obligations and liabilities of the proposed trustee, and which is subject to supervision or examination by federal or state banking authority. If such corporation or banking association publishes reports of condition at least annually, pursuant to law or the requirements of such banking authority, then for purposes of this Section, the combined capital and surplus of such corporation

or banking association shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provision described above, it shall resign promptly in the manner and with the effect specified in the Indenture.

Resignation or Removal of Trustee; Appointment of Successor Trustee

No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to the Indenture shall become effective until the acceptance of appointment by the successor Trustee under the Indenture.

The Trustee may resign at any time by giving written notice to the Commission. Upon receiving such notice of resignation, the Commission shall promptly appoint a successor Trustee by an instrument in writing. If an instrument of acceptance has not been delivered to the resigning Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee or any Bondholder may petition a court of competent jurisdiction for the appointment of a successor Trustee.

Prior to the occurrence and continuance of an Event of Default under the Indenture, or after the curing or waiver of any such Event of Default, the Commission or the holders of a majority in aggregate principal amount of the Outstanding Bonds, may remove the Trustee and shall appoint a successor Trustee. In the event there shall have occurred and be continuing an Event of Default under the Indenture, the holders of a majority in aggregate principal amount of the Outstanding Bonds may remove the Trustee and shall appoint a successor Trustee. In each instance, such removal and appointment shall be accomplished by an instrument or concurrent instruments in writing signed by the Commission or such holders, as the case may be, and delivered to the Trustee, the Commission, the holders of the Outstanding Bonds and the Successor Trustee.

If at any time: (1) the Trustee shall cease to be eligible and qualified under the Indenture and shall fail or refuse to resign after written request to do so by the Commission or the holder of any Bond, or (2) the Trustee shall become incapable of acting or shall be adjudged insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take charge or control of the Trustee, its property or affairs for the purpose of rehabilitation, conservation or liquidation, then in either such case (i) the Commission may remove the Trustee and appoint a successor Trustee in accordance with the provisions of the immediately preceding paragraph; or (ii) any holder of a Bond then Outstanding may, on behalf of the holders of all Outstanding Bonds, petition a court of competent jurisdiction for removal of the Trustee and appointment of a successor Trustee.

The Commission shall give written notice of each resignation or removal of the Trustee and each appointment of a successor Trustee to each holder of Bonds then Outstanding as listed in the Bond Register. Each such notice shall include the name and address of the applicable corporate trust office of the successor Trustee.

Supplemental Indentures Without Bondholders' Consent

The Indenture provides that the Commission and the Trustee may from time to time and at any time enter into Supplemental Indentures, without the consent of or notice to any Bondholder, to effect any one or more of the following:

(a) cure any ambiguity, defect or omission or correct or supplement any provision in the Indenture or in any Supplemental Indenture;

(b) grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Bondholders or the Trustee which are not contrary to or inconsistent with the Indenture as then in effect or to subject to the pledge and lien of the Indenture additional revenues, properties or collateral including Defeasance Obligations;

(c) add to the covenants and agreements of the Commission in the Indenture other covenants and agreements thereafter to be observed by the Commission or to surrender any right or power in the Indenture reserved to or conferred upon the Commission which are not contrary to or inconsistent with the Indenture as then in effect;

(d) permit the appointment of a co-trustee under the Indenture;

(e) modify, alter, supplement or amend the Indenture in such manner as shall permit the qualification of the Indenture, if required, under the Trust Indenture Act of 1939, the Securities Act of 1933 or any similar federal statute hereafter in effect;

(f) make any other change in the Indenture that is determined by the Trustee not to be materially adverse to the interests of the Bondholders;

(g) implement the issuance of Additional Bonds permitted under the Indenture; or

(h) if all Bonds in a series are Book Entry Bonds, amend, modify, alter or replace any Letter of Representations as provided in Section 209 of the Indenture or other provisions relating to Book Entry Bonds.

The Trustee shall not be obligated to enter into any such Supplemental Indenture which adversely affects the Trustee's own rights, duties or immunities under the Indenture.

Supplemental Indentures Requiring Bondholders' Consent

The Commission and the Trustee, at any time and from time to time, may execute and deliver a Supplemental Indenture for the purpose of making any modification or amendment to the Indenture, but only with the written consent, given as provided in the Indenture, of the holders of at least a majority in aggregate principal amount of the Bonds Outstanding at the time such consent is given, and in case less than all of the Bonds then Outstanding are affected by the modification or amendment, of the holders of at least a majority in aggregate principal amount of the Bonds so affected and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds so affected remain Outstanding, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under these provisions. Notwithstanding the foregoing, no modification or amendment contained in any such Supplemental Indenture shall permit any of the following, without the consent of each Bondholder whose rights are affected thereby:

(a) a change in the terms of stated maturity or redemption of any Bond or of any installment of interest thereon;

(b) a reduction in the principal amount of or redemption premium on any Bond or in the rate of interest thereon or a change in the coin or currency in which such Bond is payable;

(c) the creation of a lien on or a pledge of any part of the Trust Estate which has priority over or parity with (to the extent not permitted under the Indenture) the lien or pledge granted to the Bondholders under the Indenture (but this provision shall not apply to the release of any part of the Trust Estate as opposed to the creation of a prior or parity lien or pledge);

(d) the granting of a preference or priority of any Bond or Bonds over any other Bond or Bonds, except to the extent permitted in the Indenture;

(e) a reduction in the aggregate principal amount of Bonds of which the consent of the Bondholders is required to effect any such modification or amendment; or

(f) a change in the provisions of the Indenture provisions relating to amendments and supplements.

Notwithstanding the foregoing, the holder of any Bond may extend the time for payment of the principal of or interest on such Bond; provided, however, that upon the occurrence of an Event of Default, funds available under the Indenture for the payment of the principal of and interest on the Bonds shall not be applied to any payment so extended until all principal and interest payments which have not been extended have first been paid in full. Notice of any Supplemental Indenture executed pursuant to the provisions described above shall be given to the Bondholders promptly following the execution thereof.

Consents of Bondholders and Opinions

Each Supplemental Indenture executed and delivered pursuant to the provisions described under "Supplemental Indentures Requiring Bondholders' Consent" shall take effect only when and as provided below. A copy of such Supplemental Indenture (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be sent by the Trustee to Bondholders, at the expense of the Commission, by first class mail, postage prepaid, provided that a failure to mail such request shall not affect the validity of the Supplemental Indenture when consented to as provided in the Indenture. Such Supplemental Indenture shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of Bondholders of the percentage of Bonds specified above under "Supplemental Indentures Requiring Bondholders' Consent" given as provided in the Indenture, and (b) an opinion of Counsel acceptable to the Trustee stating that (1) the execution of such Supplemental Indenture is authorized or permitted by the Indenture and (2) all conditions precedent to the execution and delivery of such Supplemental Indenture have been complied with, and an opinion of Bond Counsel that the execution and performance of such Supplemental Indenture shall not, in and of itself, adversely affect the federal income tax status of any Bonds, the interest on which is not included in gross income for federal income tax purposes. Any such consent shall be binding upon the Bondholder giving such consent and upon any subsequent holder of such Bonds and of any Bonds issued in exchange therefor or in lieu thereof (whether or not such subsequent Bondholder has notice thereof), unless such consent is revoked in writing by the Bondholder giving such consent or a subsequent holder of such Bonds by filing such revocation with the Trustee prior to the date the Trustee receives the material required in clauses (a) and (b) above.

Notwithstanding anything else in the Indenture, if a Supplemental Indenture is to become on the same date as the date of issuance of Additional Bonds, the consents of the underwriters or purchasers of such Additional Bonds shall be counted for purposes of the Indenture.

The Indenture provides that Bonds which are to be disregarded under the last sentence of the definition of "Outstanding" shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article. At the time of any consent or other action taken under this Article or elsewhere in the Indenture, the Commission shall furnish the Trustee a certificate of a Commission Official, upon which the Trustee may rely, describing all Bonds so to be excluded.

Discharge of Bonds

If (a) the principal of any Bonds and the interest due or to become due thereon, together with any redemption premium required by redemption of any of the Bonds prior to maturity, shall be paid, or is caused to be paid, or is provided for as described below under "Defeasance," at the times and in the manner to which reference is made in the Bonds, according to the true intent and meaning thereof, or the

outstanding Bonds shall have been paid and discharged in accordance with this Article, and (b) all of the covenants, agreements, obligations, terms and conditions of the Commission under the Indenture shall have been kept, performed and observed and there shall have been paid to the Trustee, the Bond Registrar and the Paying Agents all sums of money due or to become due to them in accordance with the terms and provisions of the Indenture, then the right, title and interest of the Trustee in the Trust Estate shall thereupon cease and the Trustee, on request of the Commission and at the expense of the Commission, shall release the Indenture and the Trust Estate and shall execute such documents to evidence such release as may be reasonably required by the Commission and shall turn over to the Commission, or to such other Person as may be entitled to receive the same, all balances remaining in any Funds under the Indenture except for amounts required to pay such Bonds or held unclaimed in respect of Bonds which have matured or been redeemed pursuant to the Indenture.

Defeasance

If the Commission deposits with the Trustee moneys or Defeasance Obligations which, together with the earnings thereon, are sufficient to pay the principal amount of and redemption premium on any particular Bond or Bonds becoming due, either at maturity, by means of mandatory sinking fund redemption or by call for optional redemption or otherwise, together with all interest accruing thereon to the due date or Redemption Date, and pays or makes provision for payment of all fees, costs and expenses of the Commission and the Trustee due or to become due with respect to such Bonds, all liability of the Commission with respect to such Bond or Bonds shall cease, such Bond or Bonds shall be deemed not to be Outstanding under the Indenture and the holder or holders of such Bond or Bonds shall be restricted exclusively to the moneys or Defeasance Obligations so deposited, together with any earnings thereon, for any claim of whatsoever nature with respect to such Bond or Bonds, and the Trustee shall hold such moneys, Defeasance Obligations and earnings in trust for such holder or holders. In determining the sufficiency of the moneys and Defeasance Obligations deposited pursuant to this Section, the Trustee shall receive, at the expense of the Commission, and may rely upon: (a) a verification report of a firm of nationally recognized independent certified public accountants or other qualified firm acceptable to the Commission and the Trustee; provided, however, that the Trustee may waive the requirement for the provision of such verification report if the Bonds which are being defeased will be paid and cancelled within 90 days and the Trustee can calculate the interest to be paid on such Bonds to and including such payment or redemption date; and (b) an opinion of Bond Counsel to the effect that (1) all conditions set forth in this Article have been satisfied and (2) that defeasance of any Bonds will not cause interest on the Bonds to be includable in gross income for federal income tax purposes. Upon such defeasance, all rights of the Commission, including its right to provide for optional redemption or prepayment of any Bonds on dates other than planned pursuant to such defeasance shall cease unless specifically retained by filing a written notification thereof with the Trustee at the time the Defeasance Obligations are deposited with the Trustee.

At such times as a Bonds shall be deemed to be paid under the Indenture, as aforesaid, it shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such money or Defeasance Obligations.

Notice of Defeasance

(a) In case any of the Bonds, for the payment of which moneys or Defeasance Obligations have been deposited with the Trustee pursuant to the provisions described above under "Defeasance," are to be redeemed on any date prior to their maturity, the Commission shall give to the Trustee in form satisfactory to it irrevocable instructions to give notice of redemption of such Bonds on the redemption date for such Bonds.

(b) In addition to the foregoing notice, in the event such Bonds to be redeemed are not by their terms subject to redemption within the next succeeding 60 days, the Trustee shall give further notice to the Bondholders that the deposit required by the provisions described above under "Defeasance" has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Article and stating the maturity or redemption date or dates upon which moneys are to be available for the

payment of the principal of and redemption premium, if any, on said Bonds; such further notice shall be given promptly following the making of the deposit required by said provisions; and such further notice also shall be given in the manner set forth in the Indenture; but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of the deposit.

(c) If the Commission has retained any rights pursuant to the provisions described above under "Defeasance", notice thereof shall be sent to Bondholders of such Bonds as soon as practicable and not later than any notice required by paragraphs (a) or (b) above.

Rights of the Bond Insurer

The Supplemental Indenture No. 6 contains a number of provisions required by Ambac Assurance as the Bond Insurer of the 2004A Bonds. Such provisions, among other things, grant Ambac Assurance the right to receive notices of certain events and other information, the right to consent to certain actions, acceleration rights, the right to control certain remedies granted to the Owners of the 2004A Bonds or the Trustee for the benefit of such Owner, recognition as a third-party beneficiary thereunder, and impose requirements for Permitted Investments, valuation, trustee related provisions and defeasance. For the purposes of exercising voting rights under the Restated Indenture including the Supplemental Indenture No. 6, Ambac Assurance shall be deemed to be the Owner of the 2004A Bonds.

[This page intentionally left blank.]

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

[This page intentionally left blank.]

June 8, 2004

TO THE PURCHASERS OF THE BONDS DESCRIBED BELOW

**RE: \$269,245,000 Pennsylvania Turnpike Commission
Turnpike Revenue Bonds, Series A of 2004**

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance and sale by the Pennsylvania Turnpike Commission (the "Commission") of \$269,245,000 principal amount of its Turnpike Revenue Bonds, Series A of 2004 (the "Bonds") pursuant to the Amended and Restated Trust Indenture dated as of March 1, 2001 (the "Amended and Restated Trust Indenture"), as supplemented to the date hereof (as so supplemented, the "Indenture"), between the Commission and Wachovia Bank National Association (successor to First Union National Bank), as Trustee (the "Trustee").

We have examined (i) an executed copy of the Amended and Restated Trust Indenture and each supplement thereto, including the Supplemental Trust Indenture No. 6 dated as of June 1, 2004 between the Commission and the Trustee (the "Supplemental Indenture"), (ii) the form of Bond, and (iii) such constitutional and statutory provisions and such other resolutions, certificates, instruments and documents as we have deemed necessary or appropriate in order to enable us to render an informed opinion as to matters set forth herein.

In rendering this opinion, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As to any facts material to our opinion, we have, when relevant facts were not independently established, relied upon the aforesaid instruments, certificates and documents.

The Commission covenants in the Indenture to maintain the exclusion of interest on the Bonds from gross income for federal income tax purposes and, among other things, comply with the requirements of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder or applicable with respect thereto (the "Code"). The Commission further covenants in the Indenture that it will not make any investment or other use of the proceeds of the Bonds which would have caused the Bonds to be "arbitrage bonds" under Section 148 of the Code.

Based upon the foregoing, it our opinion, under existing law and as of the date hereof, subject to the qualifications and limitations set forth herein, that:

To Purchasers of the Bonds

June 8, 2004

Page 2

1. The Commission is a validly existing instrumentality of the Commonwealth of Pennsylvania and has the power to enter into the transactions contemplated by the Indenture and to carry out its obligations thereunder.

2. The Supplemental Indenture has been duly authorized, executed and delivered by the Commission and constitutes the valid and binding obligation of the Commission enforceable against it in accordance with its respective terms.

3. The Bonds have been duly and validly authorized and issued by the Commission and constitute the valid and binding limited obligations of the Commission enforceable against it in accordance with their terms, payable from the sources provided therefor in the Indenture.

4. The Bonds are exempt from personal property taxes in Pennsylvania and the interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax.

5. Under existing statutes, regulations, rulings and court decisions, interest on the Bonds will not be includible in gross income of the holders thereof for federal income tax purposes and will not be a specific preference item for purposes of computing the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on corporations (other than an S corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit). In addition, interest on the Bonds is included in effectively connected earnings and profits for the purpose of computing the branch profits tax imposed on certain foreign corporations doing business in the United States. Further, interest on the Bonds may be subject to federal income taxation under Section 1375 of the Code for S corporations that have Subchapter C earnings and profits at the close of the taxable year if more than 25% of the gross receipts of such S corporations is passive investment income.

Attention is invited to the fact that ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers, including financial institutions subject to Section 265 of the Code, who may be deemed to have incurred or continued indebtedness to purchase or to carry the Bonds, and we express no opinion as to any of such consequences.

In rendering this opinion, we have assumed compliance by the Commission with the covenants contained in the Bonds, the statements contained in the Indenture and the statements of the Commission provided in its Tax Regulatory Agreement that are intended to comply with the provisions of the Code relating to actions to be taken by the Commission in respect of the Bonds after the issuance thereof to the extent necessary to effect or maintain the federal tax-exempt status of the interest on the Bonds. These covenants and statements relate to, *inter alia*, the use of proceeds

To Purchasers of the Bonds

June 8, 2004

Page 3

of the Bonds and the rebating to the United States Treasury of specified arbitrage earnings, if required.

Our opinions set forth above as to the enforceability of the Bonds and the Supplemental Indenture are subject to applicable bankruptcy, reorganization, moratorium, insolvency or other laws affecting creditors' rights or remedies generally (including, without limitation, laws relating to fraudulent conveyances or transfers) and are subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

These opinions are rendered on the basis of federal law and the laws of the Commonwealth of Pennsylvania as enacted and construed on the date hereof. We express no opinion as to any matter not set forth in the numbered paragraphs above, including, without limitation, with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of, the Preliminary Official Statement or the Official Statement prepared in respect of the Bonds, including the appendices thereto, and make no representation that we have independently verified any such information.

The opinions set forth herein are given solely for the benefit of the purchasers of the Bonds and may not be relied on by any other person or entity without our express prior written consent. The opinions set forth herein are given solely as of the date hereof, and we do not undertake to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

[This page intentionally left blank.]

APPENDIX D

SPECIMEN BOND INSURANCE POLICY

[This page intentionally left blank.]

Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

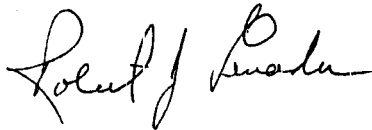
In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

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

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President

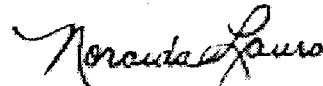


Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.



Authorized Officer of Insurance Trustee

[This page intentionally left blank.]