

*In the opinion of Bond Counsel, interest on the 2008A-1 Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, subject to the conditions described in "TAX MATTERS." Interest on the 2008A-1 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 2008A-1 Bonds. In the opinion of Bond Counsel, under existing law, interest on the 2008A-2 Bonds is includable in gross income for purposes of federal income taxation. Under the laws of the Commonwealth of Pennsylvania, the 2008 Bonds are exempt from personal property taxes in Pennsylvania, and interest on the 2008 Bonds is exempt from Pennsylvania personal income tax and the Pennsylvania corporate net income tax. For a more complete discussion, see "TAX MATTERS" and "TAX MATTERS - State Tax Matters".*

**\$244,855,000**  
**PENNSYLVANIA TURNPIKE COMMISSION,**  
**TURNPIKE SUBORDINATE REVENUE BONDS, SERIES 2008A**

**Consisting of**

\$176,565,000 Turnpike Subordinate Revenue Bonds, Subseries A-1 of 2008  
 \$68,290,000 Turnpike Subordinate Revenue Bonds, Subseries A-2 of 2008 (Federally Taxable)

**Dated: Date of Delivery**

**Due: As shown on Inside Front Cover**

The Pennsylvania Turnpike Commission Turnpike Subordinate Revenue Bonds, Series 2008A (the "2008 Bonds") are being issued under that certain Subordinate Trust Indenture dated as of April 1, 2008 (as amended and supplemented, the "Subordinate Indenture"), between the Pennsylvania Turnpike Commission (the "Commission"), as issuer, and Commerce Bank, National Association, Philadelphia, PA, as trustee (the "Trustee"), and that certain Supplemental Trust Indenture No. 1 dated as of April 1, 2008 (the "Supplemental Subordinate Indenture No. 1") between the Commission and the Trustee supplementing the Subordinate Indenture, all pursuant, among other things, to an Act of the General Assembly of Pennsylvania approved July 18, 2007, P.L. 169, No. 44 ("Act 44") and various other acts of the General Assembly of Pennsylvania. The 2008 Bonds are being issued in two subseries consisting of \$176,565,000 aggregate principal amount of the Commission's Turnpike Subordinate Revenue Bonds, Subseries A-1 of 2008 (the "2008A-1 Bonds"), and \$68,290,000 aggregate principal amount of the Commission's Turnpike Subordinate Revenue Bonds, Subseries A-2 of 2008 (Federally Taxable) (the "2008A-2 Bonds"); both subseries are issued under and pursuant to Supplemental Subordinate Indenture No. 1.

The 2008 Bonds are issuable as one fully registered certificate for each maturity and subseries in book-entry-only form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2008 Bonds. Purchases of beneficial ownership interests in the 2008 Bonds may be made only through the DTC book-entry system and may be made only in denominations of \$5,000 or any integral multiple thereof. Beneficial Owners (as defined herein) of the 2008 Bonds will not receive certificates representing their interests in the 2008 Bonds.

The 2008 Bonds will be dated the date of initial issuance and delivery thereof, will bear interest at the rates shown on the inside front cover at fixed rates set for the maturity dates thereof, calculated on the basis of a year of 360 days consisting of twelve 30-day months. Interest on the 2008 Bonds is payable on each June 1 and December 1, commencing December 1, 2008. The principal of the 2008 Bonds will be payable on the maturity date as set forth on the inside front cover hereof subject to prior redemption, as described herein. So long as Cede & Co. is the registered owner of the 2008 Bonds, payments of principal of and interest on the 2008 Bonds will be made directly by the Trustee, as paying agent ("Paying Agent") under the 2008 Bond Resolution, as described herein. See "DESCRIPTION OF THE 2008 BONDS - Book-Entry-Only System" herein.

The 2008 Bonds are subject to optional redemption prior to maturity at the option of the Commission, in whole or in part by lot within the applicable subseries as described herein. The 2008 Bonds are subject to mandatory sinking fund redemptions prior to maturity as described herein. The 2008A-2 Bonds are subject to a premium payment for any permitted optional redemptions prior to maturity of the 2008A-2 Bonds. See "DESCRIPTION OF THE 2008 BONDS - Redemption".

The proceeds of the 2008 Bonds will be used to provide funds (a) to make payments to PennDot in accordance with Act 44 to fund certain grants to mass transit agencies and various road, highway, bridge and capital projects of PennDot, (b) to fund the 2008A Account, or the appropriate subaccount thereof, of the Debt Service Reserve Fund, (c) to pay the premium for the Financial Guaranty Insurance Policy; and (d) to pay the costs of issuance of the 2008 Bonds (the "2008 Project"). See "PLAN OF FINANCING".

Subordinate Indenture Bonds issued pursuant to the Subordinate Indenture and certain other Parity Obligations are secured under the Subordinate Indenture pursuant to the pledge by the Commission of the Trust Estate, consisting primarily of Commission Payments, subject however in all respects to the terms, limitations and subordinations set forth in the Subordinate Indenture.

Payment of the principal of and interest on the 2008 Bonds when due will be insured by a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") to be issued by Assured Guaranty Corp. (the "Bond Insurer") simultaneously with the delivery of the 2008 Bonds. See "BOND INSURANCE".



THE 2008 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. THE 2008 BONDS WILL BE EQUALLY AND RATABLY SECURED, ALONG WITH ADDITIONAL SUBORDINATE INDENTURE BONDS ISSUED PURSUANT TO THE SUBORDINATE INDENTURE AND CERTAIN OTHER PARITY OBLIGATIONS, PURSUANT TO THE PLEDGE BY THE COMMISSION OF THE TRUST ESTATE, SUBJECT HOWEVER IN ALL RESPECTS TO THE TERMS, LIMITATIONS, PRIORITIES AND SUBORDINATIONS SET FORTH IN THE SUBORDINATE INDENTURE. THE SUBORDINATE INDENTURE PLEDGES TO THE TRUSTEE FOR THE BENEFIT OF THE 2008 BONDS, TOGETHER WITH ALL ADDITIONAL SUBORDINATE INDENTURE BONDS AND PARITY OBLIGATIONS, COMMISSION PAYMENTS FROM AMOUNTS PAID FROM THE GENERAL RESERVE FUND AFTER THE PAYMENT OF ALL OUTSTANDING SENIOR INDENTURE OBLIGATIONS ISSUED UNDER THE SENIOR INDENTURE; AND THUS THE 2008 BONDS ARE SUBORDINATE TO THE PAYMENT OF SUCH SENIOR INDENTURE OBLIGATIONS.

THE COMMONWEALTH IS NOT OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION WHATSOEVER FOR THE PAYMENT OF THE 2008 BONDS OR TO MAKE ANY APPROPRIATION FOR THE PAYMENT OF THE 2008 BONDS. THE COMMISSION HAS NO TAXING POWER.

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

*The 2008 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 Tucker Arensberg, P.C., Pittsburgh, Pennsylvania, Counsel for the Underwriters. Certain legal matters will be passed upon for the Commission by its Chief Counsel, Doreen A. McCall, Esquire. It is anticipated that the 2008 Bonds will be available for delivery in New York, New York on or about April 29, 2008.*

**Citi**

**DEPFA First Albany Securities**  
**Mesirow Financial, Inc.**

**Ferris, Baker Watts, Incorporated**  
**RBC Capital Markets**

**Janney Montgomery Scott LLC**  
**Wachovia Bank, National Association**

**\$244,855,000**  
**PENNSYLVANIA TURNPIKE COMMISSION,**  
**TURNPIKE SUBORDINATE REVENUE BONDS, SERIES 2008A\**

Consisting of

**\$176,565,000**  
**Turnpike Subordinate Revenue Bonds, Subseries A-1 of 2008**

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP No.</u> **
June 1, 2022	\$945,000	4.125%	4.180%	99.415	709223RT0
June 1, 2023	2,000,000	4.250%	4.270%	99.775	709223RU7
June 1, 2023	5,460,000	5.000%	4.270%	105.929*	709223RV5
June 1, 2024	2,000,000	4.300%	4.340%	99.536	709223RW3
June 1, 2024	5,820,000	5.000%	4.340%	105.342*	709223RX1
June 1, 2025	8,195,000	5.000%	4.390%	104.925*	709223RY9
June 1, 2026	8,605,000	5.000%	4.430%	104.593*	709223RZ6
June 1, 2027	360,000	4.500%	4.480%	100.157*	709223SA0
June 1, 2027	8,675,000	5.000%	4.480%	104.179*	709223SB8
June 1, 2028	2,000,000	4.500%	4.520%	99.734	709223SC6
June 1, 2028	7,485,000	5.000%	4.520%	103.850*	709223SD4
June 1, 2029	9,950,000	5.000%	4.570%	103.440*	709223SE2

**\$3,600,000 4.625% Term Bonds Due June 1, 2033; Yield 4.670%; Price 99.335**  
**CUSIP No. 709223SF9**

**\$41,405,000 5.000% Term Bonds Due June 1, 2033; Yield 4.670%; Price 102.626\***  
**CUSIP No. 709223SG7**

**\$2,820,000 4.700% Term Bonds Due June 1, 2038; Yield 4.720%; Price 99.676**  
**CUSIP No. 709223SH5**

**\$67,245,000 5.000% Term Bonds Due June 1, 2038; Yield 4.720%; Price 102.222\***  
**CUSIP No. 709223SJ1**

*\*Priced at the stated yield to the June 1, 2018 optional redemption date.*

and Consisting of

**\$68,290,000**  
**Turnpike Subordinate Revenue Bonds, Subseries A-2 of 2008 (Federally Taxable)**

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP No.</u> **
June 1, 2009	\$2,555,000	3.740%	3.740%	100.00	709223SK8
June 1, 2010	3,760,000	4.020%	4.020%	100.00	709223SL6
June 1, 2011	3,915,000	4.390%	4.390%	100.00	709223SM4
June 1, 2012	4,085,000	4.720%	4.720%	100.00	709223SN2
June 1, 2013	4,280,000	4.920%	4.920%	100.00	709223SP7
June 1, 2014	4,490,000	5.160%	5.160%	100.00	709223SQ5
June 1, 2015	4,720,000	5.310%	5.310%	100.00	709223SR3

**\$15,745,000 5.490% Term Bonds Due June 1, 2018; Price: 100.00  
CUSIP No. 709223SS1**

**\$24,740,000 6.410% Term Bonds Due June 1, 2022; Price: 100.00  
CUSIP No. 709223ST9**

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# PENNSYLVANIA TURNPIKE COMMISSION

## COMMISSIONERS

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Chairman

TIMOTHY J. CARSON  
Vice Chairman

J. WILLIAM LINCOLN  
Secretary/Treasurer

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PASQUALE T. DEON, SR.

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Chief Financial Officer

FRANK J. KEMPF, JR.  
Chief Engineer

DOREEN A. MCCALL  
Chief Counsel

NIKOLAUS H. GRIESHABER  
Director of Treasury Management

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COMMERCE BANK, NATIONAL ASSOCIATION  
Trustee and Paying Agent

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HOPKINS & COMPANY  
Financial Advisor

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No dealer, broker, salesman or other person has been authorized by the Commission or the Underwriters to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any or either of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2008 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Commission and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by, and is not to be construed as representations by, the Underwriters. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in any of the information set forth herein since the date hereof.

The 2008 Bonds are not and will not be registered under the Securities Act of 1933, as amended, or under any state securities laws, and the Subordinate Indenture has not been and will not be qualified under the Trust Indenture Act of 1939, as amended, because of available exemptions therefrom. Neither the Securities and Exchange Commission nor any federal, state, municipal, or other governmental agency will pass upon the accuracy, completeness, or adequacy of this Official Statement.

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

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2008 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

**THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY, OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE 2008 BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.**

## TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION .....	1
Pennsylvania Turnpike Commission .....	1
Subordinate Indenture and Enabling Acts .....	2
2008 Bonds .....	2
Redemption .....	2
Security .....	2
Senior Indenture and Senior Trustee .....	3
General Reserve Fund .....	4
Commission Payments .....	4
Rate Covenants .....	5
Bond Insurance .....	5
Pennsylvania Turnpike System .....	6
Act 44 .....	6
Statutory Limitations on the Incurrence of Special Revenue Bonds .....	7
Lease Between PennDot and Commission .....	8
Payments to PennDot for Roads, Bridges and Transit .....	9
Issuance of Bonds .....	10
Tolling of Interstate 80 .....	10
Rules Relating to Governance and Accountability under Act 44 .....	12
The Project .....	12
Revenue Sources of the Commission .....	12
CERTAIN RISK FACTORS .....	13
DESCRIPTION OF THE 2008 BONDS .....	16
Generally .....	16
Registration, Transfer and Exchange .....	17
Redemption of Subordinate Indenture Bonds .....	18
Redemption of 2008 Bonds .....	20
PLAN OF FINANCING .....	22
ESTIMATED SOURCES AND USES OF FUNDS .....	22
SECURITY FOR THE 2008 BONDS .....	23
Senior Revenue Bonds and Other Senior Parity Obligations .....	24
Subordinate Indenture Bonds and Other Parity Obligations .....	24
Rate Covenant .....	25
The General Reserve Fund under the Subordinate Indenture .....	27
Commission Payments .....	29
Commission Payments Fund .....	30
Administrative Expenses Fund .....	31
Debt Service Fund .....	31
Debt Service Reserve Fund .....	32
Guarantee Repayment Fund .....	34
Residual Fund .....	34
BOND INSURANCE .....	35
The Insurance Policy .....	35
The Insurer .....	36
Capitalization of Assured Guaranty Corp .....	36
Incorporation of Certain Documents by Reference .....	37
AUDITED FINANCIAL STATEMENTS .....	37

CONTINUING DISCLOSURE.....	38
RELATIONSHIPS OF CERTAIN PARTIES .....	39
UNDERWRITING .....	39
RATINGS .....	39
LITIGATION.....	40
LEGAL MATTERS.....	40
TAX MATTERS.....	41
2008A-1 Bonds .....	41
2008A-2 Bonds .....	43
State Tax Matters .....	45
ERISA CONSIDERATIONS .....	45
FINANCIAL ADVISOR .....	46
TRUSTEE AND PAYING AGENT.....	47
MISCELLANEOUS .....	47
APPENDIX A - THE PENNSYLVANIA TURNPIKE	
APPENDIX B - AUDITED FINANCIAL STATEMENTS: 2007 AND 2006	
APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE INDENTURE	
APPENDIX D - SECURITIES DEPOSITORY	
APPENDIX E - FORM OF OPINION OF BOND COUNSEL	
APPENDIX F - SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY	
APPENDIX G - DEFINED TERMS CONCERNING SENIOR INDENTURE	
APPENDIX H - DEBT SERVICE REQUIREMENTS OF THE SENIOR INDENTURE BONDS AND SUBORDINATE INDENTURE BONDS	



**OFFICIAL STATEMENT  
OF THE  
PENNSYLVANIA TURNPIKE COMMISSION  
RELATING TO  
\$244,855,000  
TURNPIKE SUBORDINATE REVENUE BONDS, SERIES 2008A**

**Consisting of**

\$176,565,000 Turnpike Subordinate Revenue Bonds, Subseries A-1 of 2008  
\$68,290,000 Turnpike Subordinate Revenue Bonds, Subseries A-2 of 2008 (Federally Taxable)

**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 its issuance of \$244,855,000 aggregate principal amount of Pennsylvania Turnpike Commission Turnpike Subordinate Revenue Bonds, Series 2008A (the "2008 Bonds"). The 2008 Bonds are divided into two subseries of bonds consisting of \$176,565,000 aggregate principal amount of the Commission's Turnpike Subordinate Revenue Bonds, Subseries A-1 of 2008 (the "2008A-1 Bonds"), and of \$68,290,000 aggregate principal amount of the Commission's Turnpike Subordinate Revenue Bonds, Subseries A-2 of 2008 (Federally Taxable) (the "2008A-2 Bonds"), both subseries issued under and pursuant to Supplemental Subordinate Indenture No. 1. 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 SUBORDINATE INDENTURE - DEFINITIONS OF CERTAIN TERMS". All references herein to the Enabling Acts, the 2008 Bonds, the Subordinate Indenture, the Supplemental Subordinate Indenture No. 1, the Senior Indenture, the Bond Insurance, and the Continuing Disclosure Agreement are qualified in their entirety by reference to the complete texts thereof. Copies of drafts of such documents may be obtained during the initial offering period from the principal offices of the Underwriters and thereafter, executed copies may be obtained from the Trustee. All statements in this Official Statement involving matters of opinion, estimates, forecasts, projections or the like, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. Capitalized terms used herein but not herein defined shall have the meanings set forth in Appendix C and Appendix G attached hereto, as applicable.

**Pennsylvania Turnpike Commission**

The Commission is an instrumentality of the Commonwealth created by the Enabling Acts (as defined below), with power to construct, operate and maintain the System (as defined below) and to perform other functions authorized by Act 44. Its composition, powers, duties, functions, duration and all other attributes are derived from the Enabling Acts, as amended and supplemented from time to time. The Enabling Acts may be modified, suspended, extended or terminated at any time by further legislation; provided that the Commonwealth has pledged pursuant to Act 44 not to limit or alter the rights vested in the Commission or the Trustee for the Bonds to the appropriation and distribution of money from the Motor License Fund as described in Act 44. See "INTRODUCTION - Subordinate Indenture and Enabling Acts" and "APPENDIX A - THE PENNSYLVANIA TURNPIKE."

## **Subordinate Indenture and Enabling Acts**

The 2008 Bonds are being issued pursuant to that certain Subordinate Trust Indenture dated as of April 1, 2008 (the "Subordinate Indenture") between the Commission and Commerce Bank, National Association, as Trustee (the "Trustee"), with the 2008 Bonds being issued under the terms of the Subordinate Indenture and that certain Supplemental Trust Indenture No. 1 dated as of April 1, 2008 (the "Supplemental Subordinate Indenture No. 1") between the Commission and the Trustee supplementing the Subordinate Indenture, all pursuant to, and as authorized by an Act of the General Assembly of Pennsylvania approved July 18, 2007, P. L. 169, No. 44 ("Act 44"), and various Acts of the General Assembly approved on several dates, including the Act of May 21, 1937, P.L. 774, Act 211; the Act of May 24, 1945, P.L. 972; the Act of February 26, 1947, P.L. 17; the Act of May 23, 1951, P.L. 335; the Act of August 14, 1951, P.L. 1232; and the Act of September 30, 1985, P.L. 240, No. 61 ("Act 61") to the extent not repealed by Act 44, (collectively, and together with Act 44, the "Enabling Acts") and the Resolution adopted by the Commission on February 5, 2008, as supplemented on February 19, 2008 (collectively, the "Bond Resolution").

Under the Enabling Acts and under and pursuant to the Subordinate Indenture, the Commission may issue two classes (the "Class") of Subordinate Indenture Bonds (the "Subordinate Indenture Bonds"), including Revenue Bonds (the "Revenue Bonds") and Guaranteed Bonds (the "Guaranteed Bonds"). If any Guaranteed Bonds are issued pursuant to the Subordinate Indenture, debt service on such Guaranteed Bonds will be secured by a statutory obligation of the Commonwealth with respect to the payment of specified revenue of the Commonwealth's Motor License Fund to make up any deficiency in the appropriate sub-account of the Guaranteed Bonds Account of the Debt Service Fund, but importantly, all debt service would be paid by the Commission. Guaranteed Bonds represent Special Revenue Bonds, as defined in §9511.2 of Act 44 (the "Special Revenue Bonds"), the issuance of which is limited in certain respects by the provisions of Act 44. Although the Subordinate Indenture contains provisions for the issuance of Guaranteed Bonds under the Subordinate Indenture, no Guaranteed Bonds are being issued contemporaneously with the 2008 Bonds and the 2008 Bonds are not Special Revenue Bonds under the terms of Act 44. **The Series 2008 Bonds represent Revenue Bonds under the Subordinate Indenture.** See "INTRODUCTION - Statutory Limitations on the Incurrence of Special Revenue Bonds."

## **2008 Bonds**

The 2008 Bonds will bear interest at fixed interest rates and will mature, subject to prior redemption, on the dates and in the amounts set forth on the inside front cover of this Official Statement. See "DESCRIPTION OF THE 2008 BONDS". Interest on the 2008 Bonds is payable on each June 1 and December 1, commencing on December 1, 2008.

## **Redemption**

The 2008 Bonds are subject to optional redemption and mandatory sinking fund redemptions prior to maturity under certain circumstances as more fully set forth herein. See "DESCRIPTION OF THE 2008 BONDS-Redemption."

## **Security**

The 2008 Bonds are limited obligations of the Commission. The 2008 Bonds will be equally and ratably secured, along with any Additional Subordinate Indenture Bonds of the same Class of Subordinate Indenture Bonds issued pursuant to the Subordinate Indenture and certain other Parity Obligations, by a pledge by the Commission of the Trust Estate consisting primarily of Commission Payments from amounts released from the General Reserve Fund (as herein defined) established under the Senior

Indenture after the payment of all Senior Indenture Obligations issued under the Senior Indenture. THE PAYMENT OF THE SUBORDINATE INDENTURE BONDS ARE SUBJECT TO THE PRIOR RIGHT OF PAYMENT OF ALL SENIOR INDENTURE OBLIGATIONS ISSUED UNDER THE SENIOR INDENTURE, AND THEREFORE, THE CASH FLOW OF THE COMMISSION AVAILABLE FOR THE PAYMENT OF THE 2008 BONDS IS SUBORDINATE IN RIGHT OF PAYMENT TO THE PAYMENT OF ALL SUCH SENIOR INDENTURE OBLIGATIONS.

The payment of debt service on any Guaranteed Bond from Commission Payments is junior in right of payment to the payment of Debt Service on the Revenue Bonds and the restoration of any deficiency in the Debt Service Reserve Fund for the Revenue Bonds pursuant to the Subordinate Indenture.

A Debt Service Reserve Fund has been established under the Subordinate Indenture to provide additional security for Debt Service Reserve Fund Bonds. Debt Service Reserve Fund Bonds include Long-Term Indebtedness specified by the Commission in the Subordinate Indenture or a supplemental subordinate indenture to the Subordinate Indenture as being secured by the Debt Service Reserve Fund. The Subordinate Indenture requires that the balance in the Debt Service Reserve Fund be maintained at the Debt Service Reserve Requirement, which is an amount equal to the lesser of (i) Maximum Annual Debt Service on account of all Debt Service Reserve Fund Bonds, (ii) ten percent (10%) of the aggregate Outstanding principal amount of all Debt Service Reserve Fund Bonds, or (iii) 125% of average Annual Debt Service for all Debt Service Reserve Fund Bonds for each Fiscal Year for the remaining life of such Bonds, provided in any case that such amount does not exceed what is permitted by the Code. **The 2008 Bonds are Debt Service Reserve Fund Bonds for the purpose of the Subordinate Indenture and, accordingly, are secured by moneys on deposit in the 2008A Account, or the appropriate subaccounts thereof, of the Debt Service Reserve Fund.** The 2008A Account, and each appropriate subaccount thereof, have been established as part of the Debt Service Reserve Fund. On the date of the issuance of the 2008 Bonds an amount equal to \$16,180,970.76 from proceeds of the 2008 Bonds will be deposited into the 2008A Account, or the appropriate subaccount thereof, of the Debt Service Reserve Fund. Such amount is sufficient to fulfill the Debt Service Reserve Fund Requirement of the Subordinate Indenture with respect to the 2008 Bonds. At this time, there are no other outstanding Debt Service Reserve Bonds other than the 2008 Bonds issued under the Subordinate Indenture. See "SECURITY FOR THE 2008 BONDS" for a more detailed description of the Trust Estate under the Subordinate Indenture.

**THE 2008 BONDS ARE LIMITED OBLIGATIONS OF THE COMMISSION AND 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 2008 BONDS.**

#### **Senior Indenture and Senior Trustee**

The Commission issues revenue bonds and notes pursuant to and under an Amended and Restated Trust Indenture dated as of March 1, 2001, as amended and supplemented from time to time (the "Senior Indenture") by and between the Commission and U.S. Bank National Association, Philadelphia, Pennsylvania as trustee (the "Senior Trustee"). Currently, the Commission has \$2,151,155,000 in bonds outstanding under the Senior Indenture. See "SECURITY FOR THE 2008 BONDS - Senior Revenue Bonds and Other Senior Parity Obligations".

Contemporaneously with the issuance of the 2008 Bonds, the Commission and the Senior Trustee will enter into an amendment to the Senior Indenture. This amendment undertakes to provide for monthly, rather than semi-annual, deposits to the Senior Indenture Debt Service Fund (as herein defined) with respect to Senior Revenue Bonds (as herein defined) and other Senior Indenture Obligations (as herein defined) issued under, or secured pursuant to, the Senior Indenture.

The 2008 Bonds are not issued pursuant to or under the Senior Indenture; and the Senior Trustee is not serving as Trustee to the 2008 Bonds. Pursuant to the terms of the Senior Indenture and the Subordinate Indenture, the Commission shall direct the Senior Trustee to take certain actions to enable the Trustee of the 2008 Bonds to undertake its responsibilities under the Subordinate Indenture. See "SECURITY FOR THE 2008 BONDS - Commission Payments".

### **General Reserve Fund**

The Commission and the Senior Trustee have established a fund under the Senior Indenture titled the General Reserve Fund (herein the "General Reserve Fund"). The General Reserve Fund is pledged to the Senior Trustee under the Senior Indenture for the benefit of the Senior Indenture Obligations. After first having made the transfers from time to time required under the Senior Indenture out of the Senior Indenture Revenue Fund to the other funds established under the Senior Indenture (exclusive of the General Reserve Fund), the Senior Trustee may transfer from the Revenue Fund on or before the last Business Day of each 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 Senior Indenture Debt Service Fund (as herein defined). Such funds on deposit, from time to time, in the General Reserve Fund are available for the payment of debt service on the Subordinate Indenture Bonds and the Parity Obligations, but due to the structuring of the priority of payments under the Senior Indenture, funds are available in the General Reserve Fund for the payment of Subordinate Indenture Bonds and Parity Obligations only after payment of all Senior Indenture Obligations then due and the maintenance of any reserve fund amounts required by the terms of the Senior Indenture. See "SECURITY FOR THE 2008 BONDS - General Reserve Fund".

### **Commission Payments**

Pursuant to the terms of the Subordinate Indenture, the Commission covenants, after payment of all required debt service on all Senior Indenture Obligations and subject to the provisions of the Senior Indenture, to pay to the Trustee, and it instructs the Senior Trustee to pay to the Trustee, out of the General Reserve Fund established under the Senior Indenture, such amounts as are required by the Subordinate Indenture, by a supplemental indenture to the Subordinate Indenture or by a Parity Swap Agreement to pay, at the times specified, debt service on all outstanding Subordinate Indenture Bonds (including the 2008 Bonds) and the Parity Obligations under the Subordinate Indenture.

Accordingly, the Commission shall instruct and furnish a debt service schedule to the Senior Trustee providing for the payment to the Trustee out of available funds held in the General Reserve Fund the amount from time to time necessary to satisfy all required deposits under the Subordinate Indenture to the Commission Payments Fund and to pay debt service on the outstanding Subordinate Indenture Bonds (including the 2008 Bonds), the Parity Obligations and all other payments required from time to time under the Subordinate Indenture and in a supplemental indenture to the Subordinate Indenture. See also "SECURITY FOR THE 2008 BONDS - Rate Covenants, the General Reserve Fund under the Senior Indenture and Commission Payments").

## **Rate Covenants**

The Commission has agreed in the Subordinate Indenture that it will establish and maintain schedules of Tolls for traffic over the System (i) so that the Net Revenues (as defined in the attached Appendix G) of the System in each Fiscal Year will at all times be at least sufficient to provide funds in an amount not less than the sum required by the Senior Indenture, and (ii) in addition, so that the amount paid into the General Reserve Fund of the Senior Indenture in each Fiscal Year and for each Commission Payment, will (after deducting any liquidity reserve or other required holdback or deposit then in effect, whether by contract or other management policy or procedure) be at least sufficient to provide funds in an amount not less than (i) 115% of the Annual Debt Service for such Fiscal Year on account of all Outstanding Revenue Bonds and Revenue Bonds Parity Obligations, plus (ii) 100% of the Annual Debt Service for such Fiscal Year on account of all Outstanding Guaranteed Bonds, Guaranteed Bonds Parity Obligations and other Subordinated Indebtedness, plus (iii) any payment by the Commission required by the Subordinate Indenture for restoring any deficiency in the Debt Service Reserve Fund within an eighteen (18) month period. The foregoing covenant is referred to herein as the "Rate Covenant".

The Senior Indenture also imposes a separate rate covenant on the Commission. Under the terms of the Senior Indenture, the Net Revenue (as defined in the attached Appendix G) of the System for each Fiscal Year shall 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 Senior Indenture Annual Debt Service for such Fiscal Year on account of all Senior Indenture Applicable Long-Term Indebtedness then outstanding under the provisions of the Senior Indenture; or (ii) one hundred percent (100%) of the Senior Indenture Maximum Annual Debt Service on all Senior Indenture Applicable Long-Term Indebtedness, plus (A) the amount of required transfers from the Senior Indenture Revenue Fund to the credit of the Senior Indenture Reserve Maintenance Fund pursuant to the Senior Indenture Annual Capital Budget, and (B) an amount sufficient to restore any deficiency in the Senior Indenture Debt Service Reserve Fund within an eighteen (18) month period; plus (2) the amount of any Senior Indenture Short-Term Indebtedness outstanding pursuant to Senior Indenture for more than 365 consecutive days.

The amounts of the Commission Payments made from the Senior Trustee to the Trustee are based on the coverage levels established by the Rate Covenant described above, therefore in each year the Commission has covenanted to transfer Commission Payments in an amount equal to the sum of (i) 115% of the Annual Debt Service for such Fiscal Year on account of all Outstanding Revenue Bonds and Revenue Bonds Parity Obligations, plus (ii) 100% of the Annual Debt Service for such Fiscal Year on account of all Outstanding Guaranteed Bonds, Guaranteed Bonds Parity Obligations and other Subordinated Indebtedness, plus (iii) any payment by the Commission required by the Subordinate Indenture for restoring any deficiency in the Debt Service Reserve Fund within an eighteen (18) month period. Notwithstanding the provisions of the Rate Covenant however, any balance in the General Reserve Fund which a Commission Official determines to be in excess of the amount required to be reserved therein for future transfers to the Senior Indenture Debt Service Fund (as herein defined) is available to make Commission Payments to the Trustee for the payment of Debt Service on Outstanding Revenue Bonds and Revenue Bonds Parity Obligations as well as Outstanding Guaranteed Bonds, Guaranteed Bonds Parity Obligations and other Subordinated Indebtedness. See "SECURITY FOR THE 2008 BONDS - The General Reserve Fund Under the Senior Indenture", "SECURITY FOR THE 2008 BONDS - Commission Payments" and "INTRODUCTION - Payments to PennDot for Roads, Bridges and Transit".

## **Bond Insurance**

Payment of the principal of and interest on the 2008 Bonds when due will be insured by a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") to be issued by Assured

Guaranty Corp. (the "Bond Insurer") simultaneously with the delivery of the 2008 Bonds. See "BOND INSURANCE."

### **Pennsylvania Turnpike System**

The present System (as defined below) is composed of a 359 mile Turnpike Mainline traversing the southern portion of Pennsylvania from east to west and a 110 mile north-south section identified as the Northeast Extension. A north-south connection, known as the Beaver Valley Expressway, is approximately 16 miles in length and intersects the Turnpike Mainline in the southwestern portion of the Commonwealth. The Amos K. Hutchinson Bypass is approximately 13 miles in length and adjoins the Turnpike Mainline near the New Stanton Interchange. In addition, a 23-mile section of the Mon/Fayette Project and an eight mile section from the Pennsylvania/West Virginia border to Fairchance, which is located just south of Uniontown, are open as part of the Pennsylvania Turnpike System. When completed, the Mon/Fayette Expressway will extend 65 miles from Interstate Route 68 in West Virginia to Interstate Route 376 near Pittsburgh. The first part of the Southern Beltway, the Finleyville Connector near Greater Pittsburgh International Airport, opened in October 2006. (Such roads, together with any other roads for which the Commission has operational responsibility and is collecting Tolls constitute the "System" unless the Commission identifies a particular road other than the Mainline Section and the Northeast Extension as not being part of the System.)

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

The Pennsylvania Turnpike System has a total of 57 interchanges which connect it with major arteries and population centers in its 531 mile traffic corridor. Thirty of the interchanges are located on the Turnpike Mainline, including Turnpike Mainline barriers at the New Jersey and Ohio state lines, and 10 interchanges are situated on the Northeast Extension. The additional 17 interchanges are located on the three extensions previously noted. There are 19 service plazas along the Pennsylvania Turnpike System providing gasoline and diesel fuel, other automotive supplies and services and restaurant services. See "APPENDIX A - THE PENNSYLVANIA TURNPIKE".

### **Act 44**

On July 18, 2007, Pennsylvania Governor Edward G. Rendell signed Act 44 into law, creating a "public-public partnership" between the Commission and the Pennsylvania Department of Transportation ("PennDot") to provide funding for roads, bridges and transit throughout the Commonwealth. Under Act 44, a 50-year Lease and Funding Agreement dated as of October 14, 2007 (the "Lease"), between the Commission and PennDot was entered into by the parties pursuant to which the Commission leases Interstate 80 (traversing northern Pennsylvania) from PennDot. See "APPENDIX A - THE PENNSYLVANIA TURNPIKE -- Pending and Future Legislation and Recent Developments." Many of the terms of Act 44 are required under Act 44 to be set forth in the Lease.

The General Assembly enacted Act 44 after considering transportation funding proposals by Governor Rendell including the leasing of the System to a private party. Recently, Governor Rendell has revived consideration of leasing the entire System to private entities in order to generate sufficient funds for the Commonwealth's transportation needs. Any such transaction would require new legislation

substantially revising or eliminating Act 44. Certain legislation has been or may be introduced which would affect Act 44 if adopted. For additional details and current developments, see "APPENDIX A – THE PENNSYLVANIA TURNPIKE - Pending and Future Legislation and Recent Developments."

If a sale, lease or concession of the System to a private party were to occur, such party would likely be required to provide funds so that the Commission could defease all outstanding indebtedness issued under the Senior Indenture as well as terminate any Parity Swap Agreements associated therewith. To the extent that the proceeds of any Guaranteed Bonds issued and outstanding under the Subordinate Indenture are not applied to the maintenance, operation or improvement of the System, the Commonwealth may elect pursuant to legislation to provide substitute collateral to secure payment of such Guaranteed Bonds. As of the date of this Official Statement, there are no Guaranteed Bonds issued or outstanding under the Subordinate Indenture.

The 2008 Bonds are not subject to extraordinary redemption in the event that the System is sold, leased or subjected to a concession to a private entity. Upon a sale, lease or concession of the System, the 2008 Bonds may be defeased and the callable 2008 Bonds redeemed pursuant to the optional redemption provisions described in this Official Statement.

On April 16, 2008, Governor Rendell's office released proposed terms, conditions and bidding information for a 75 year lease of the Mainline and Northeast Extension sections of the Turnpike. Binding bids will be due on or about the end of April 2008. There is currently no statutory authority for the Commonwealth to enter into this lease for the Turnpike. Legislation authorizing the lease and acceptance of the bid is expected to be introduced into the General Assembly when the winning bid is announced. Bids will remain valid until June 10, 2008, unless extended by the Commonwealth and the bidder. It is not known what impact future legislation would have on the existence of the Commission.

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

Under Act 44, the Commission is authorized to issue, by resolution, Special Revenue Bonds (as defined in §9511.2 of Act 44) up to an aggregate principal amount of \$5 billion, exclusive of original issue discount, for the purpose of paying bond-related expenses and costs of PennDot, including the costs of highway, road, tunnel and bridge construction, renovation and expansion, including acquisition of land, rights, machinery and equipment and certain finance charges relating thereto, public transportation systems, planning, engineering, administrative and other expenses, and debt service. In addition, no more than \$600 million in aggregate principal amount of such Special Revenue Bonds, exclusive of original issue discount, may be issued in any calendar year. No such bond may be issued unless the Lease is in effect, and no such bond may be outstanding beyond the stated term of the Lease at the time of issuance. Special Revenue Refunding Bonds (as defined in §9511.2 Act 44) shall not be deemed to count against the total or annual maximum issuance volume under Act 44. See "SECURITY FOR THE 2008 BONDS". *Although the Subordinate Indenture contains provisions for the issuance of Special Revenue Bonds and such Special Revenue Bonds are termed "Guaranteed Bonds" under the Subordinate Indenture, no Guaranteed Bonds are being issued contemporaneously with the 2008 Bonds, and the 2008 Bonds are not Special Revenue Bonds under the terms of Act 44.*

Should the Commission issue Guaranteed Bonds in the future and then fail to timely pay the debt service on such Guaranteed Bonds, the Trustee shall proceed under the terms of Act 44 to notify PennDot of such default, and PennDot shall give notice to the Treasurer of the Commonwealth of such deficiency and to request the payment of funds necessary to cure such deficiency only from funds available for such purpose in the Motor License Fund. The Commonwealth has no obligation to appropriate any funds, other than available funds on deposit in the Motor License Fund, for the payment of any such Guaranteed Bonds. The Commission is obligated pursuant to the Lease to reimburse the Treasurer of the

Commonwealth for any amounts withdrawn from the Motor License Fund in order to cure a default in the payment by the Commission with respect to the annual debt service on any such Guaranteed Bonds. This reimbursement obligation is subject and junior to the payment obligations of the Commission under the Guaranteed Bonds. **MONIES IN THE MOTOR LICENSE FUND WILL NOT BE AVAILABLE TO CURE A PAYMENT DEFAULT BY THE COMMISSION ON ANY REVENUE BONDS, INCLUDING THE 2008 BONDS.**

### **Lease Between PennDot and Commission**

On October 14, 2007 the Commission and PennDot entered into the Lease as required under the terms of Act 44. The Lease provides for a lease from PennDot to the Commission of the portion of Interstate 80 located in the Commonwealth. In addition, the Lease contains certain provisions set forth in Act 44, including provisions dealing with the terms and conditions of the conversion of Interstate 80 into a toll road (the "Conversion") (subject to the requisite approval of the United States Federal Highway Administration (the "FHWA")), and the operation, maintenance, repair and improvement of Interstate 80. The term of the Lease is 50 years.

The Lease grants the option to the Commission to effectuate the Conversion at any time before the third anniversary of the Lease, provided that the Commission may elect to extend such conversion period for three additional one-year periods. The Commission is authorized, with the cooperation of PennDot, to apply to the FHWA under one of the federal tolling pilot programs for the right to operate and toll Interstate 80. See "Tolling Interstate 80" below. In accordance with the requirements of Act 44, the Lease provides that Interstate 80 will be an "open tolling" system with no more than ten toll collection points, and service plazas will not be permitted in the right-of-way along Interstate 80. After Conversion, all legal, financial and operational responsibility for Interstate 80 shall reside with the Commission and all toll revenues subsequently collected, shall be paid to the Commission, except as otherwise agreed by the Commission and PennDot.

The Lease also commits the Commission to make certain payments to PennDot, including annual scheduled payments of \$750 million in fiscal year 2007-08, \$850 million in fiscal year 2008-09, \$900 million in fiscal year 2009-10, with such payment increasing by 2.5 percent for each fiscal year thereafter. The Lease further provides that the Commission is obligated to pay all debt service due with respect to the Special Revenue Bonds, if issued by the Commission; and subject to certain corrections, the Lease obligates the Commission to pay to PennDot the annual surplus (if any) in the General Reserve Fund. Through January 30, 2008, the Commission has made payments to PennDot under the Lease in the aggregate amount of \$520.8 million, all of which was financed or refinanced from the proceeds of Senior Revenue Bonds. However, if the Conversion does not occur by October 14, 2010 (as such date may be extended at the option of the Commission for up to three (3) one year extension periods), the scheduled annual payment obligation will be reduced to \$450 million per fiscal year, and the obligation to pay the annual surplus amount will terminate. Furthermore, if Conversion does occur, the scheduled annual payment obligation will be reduced by an amount equal to \$116,985,856 per fiscal year (pro-rated for the fiscal year during which Conversion occurs), which amount shall be increased by 4% for each fiscal year thereafter. The Lease prohibits any proceeds of Special Revenue Bonds or revenue from the operation of Interstate 80 (including tolls charged for the use thereof) from being applied to the portions of the payment obligations to PennDot required to be deposited into the Public Transportation Trust Fund for mass transit.

The payment obligations of the Commission under the Lease are to be subordinate obligations of the Commission, payable from amounts in the General Reserve Fund only as permitted by any financing documents, financial covenants, liquidity policies, or other agreements in effect of the Commission. However, the Commission is required by the terms of the Lease to fix and adjust tolls at levels that will



generate revenues (together with other available moneys) sufficient to pay, among other things, amounts to PennDot pursuant to the Lease when due and other obligations of the Commission, including the 2008 Bonds.

### **Payments to PennDot for Roads, Bridges and Transit.**

Act 44 provides that all required payments under the Lease or as required by Act 44 shall be subordinate obligations of the Commission payable solely from the General Reserve Fund after meeting all other Commission requirements pursuant to any financial documents, financial covenants, insurance policies, liquidity policies or agreements in effect at the Commission. Of the Commission's payments to PennDot, \$450 million shall be deposited in the Motor License Fund to be available for roads and bridges in fiscal year 2007-08, \$500 million in fiscal year 2008-09 and \$500 million in fiscal year 2009-10, which amount shall increase by 2.5% for each fiscal year thereafter. The balance of the annual payments under the Lease shall be deposited into the Public Transportation Trust Fund for distribution to Pennsylvania's local and regional public transportation agencies for operating and capital purposes. These amounts to be so deposited are \$300 million in fiscal year 2007-08, \$350 million in fiscal year 2008-09 and \$400 million in fiscal year 2009-10, which amount shall increase by 2.5% for each fiscal year thereafter. Notwithstanding the foregoing, no portion of the payments of the Commission to be deposited into the Public Transportation Trust Fund may be made with the revenues generated by the Commission from the operation of Interstate 80 or from the proceeds of the Special Revenue Bonds. The first payment of \$62.5 million due on August 7, 2007, the second payment of \$229.2 million due on October 31, 2007, and the third payment of \$229.2 million due on January 31, 2008, were timely made as required under Act 44.

Of the Lease payments, \$300 million would be available for mass transit in fiscal year 2007/08, \$350 million in fiscal year 2008/09, and \$400 million in fiscal year 2009/10. The remaining amount of the Lease payments will be designated for highways and bridges: \$450 million for fiscal year 2007/08, \$500 million for fiscal year 2008/09, and \$500 million in fiscal year 2009/10.

Of those amounts designated for highways and bridges, \$5 million each fiscal year will be for county-owned bridges, distributed among the counties based on square-footage of bridge deck area as reported by the national Bridge Inspection Standards Program and \$30 million each year will be for municipal roads and bridges to be allocated pursuant to the Liquid Fuels Tax Municipal Allocation Law. Fifteen percent of the amount for highways/bridges shall be distributed at the discretion of the Secretary of Transportation of the Commonwealth, which equals \$67.5 million in fiscal year 2007/08 and \$75 million in fiscal year 2008/09 and 2009/10. The remaining amount for highways/bridges shall be distributed based on developed needs-based formula among the Metropolitan Planning Organizations, Rural Planning Organizations, and PennDot. These amounts are \$347.5 million in fiscal year 2007/08 and \$390 million in fiscal year 2008/09 and 2009/10.

Upon the occurrence of the Conversion, the Commission is additionally committed under Act 44 to make annual surplus payments (the "Annual Surplus Payment") of the General Reserve Fund Surplus available at the end of each fiscal year, according to a certificate of the Auditor General. The General Reserve Fund Surplus is defined in Act 44 as the amount which (i) is certified by the Auditor General as existing in the Commission's General Reserve Fund on the last day of the fiscal year of the Commission, and (ii) is not required to be retained in the General Reserve Fund pursuant to any financial documents, financial covenants, insurance policies, liquidity policies or agreements in effect at the Commission, including the Senior Indenture and the Subordinate Indenture. Currently, the Lease and Act 44 are inconsistent on the beginning date of the Annual Surplus Payment. The Commission anticipates amending the Lease to match the terms of Act 44.

If Conversion does not occur by the end of the Conversion Period, the Commission is only committed to make payments totaling \$450 million annually over the term of the Lease, with \$200 million to be deposited in the Motor License Fund to be available for roads and bridges and \$250 million to be deposited in the Public Transportation Trust Fund annually to be available for transit.

### **Issuance of Bonds**

Under the Enabling Acts, including Act 44, the Commission is authorized and empowered, among other things, to issue turnpike revenue bonds, notes or other obligations (either senior on a parity basis or subordinate) to pay (i) pursuant to the Lease, the costs of construction, reconstructing, widening, expanding or extending Interstate 80 or any other costs of Interstate 80 and the System, (ii) certain amounts to PennDot pursuant to the Lease for purposes of funding PennDot highway, road and bridge construction and maintenance programs in the Commonwealth, (iii) costs of improvements to the System, and (iv) certain amounts into a Public Transportation Trust Fund pursuant to the Lease to be used exclusively for mass transit programs (provided that, pursuant to the terms of the Lease, the proceeds of any Special Revenue Bonds may not be applied for payments to mass transit programs).

The bonds authorized to be issued by the Commission under Act 44, after execution of the Lease, include up to \$5 billion of Special Revenue Bonds, exclusive of original issue discount, for the purpose of paying bond-related expenses and costs of PennDot, including the costs of highway, road, tunnel and bridge construction, renovation and expansion, including acquisition of land rights, machinery and equipment and certain finance charges relating thereto, public transportation systems, planning, engineering, administrative and other expenses, and debt service. Proceeds of such bonds may be applied toward the satisfaction of the Commission's scheduled annual payment obligations under the Lease and Act 44, except, pursuant to the terms of the Lease, that portion of the annual payment obligations to be deposited in the Public Transportation Trust Fund. The Commission presently intends any such long-term bonds to be issued under the Subordinate Indenture and paid solely from Commission Payments and therefore will be subordinate to the Senior Indenture Obligations issued under the Senior Indenture. In addition, under the terms of the Subordinate Indenture, the Guaranteed Bonds will have a subordinate right to payment from Commission Payments to the rights of payment in favor of the holders of the Revenue Bonds issued under the Subordinate Indenture. See "SECURITY FOR THE 2008 BONDS - Commission Payments". *Neither the 2008A-1 Bonds or the 2008A-2 Bonds shall be Special Revenue Bonds under Act 44 and shall not count towards the debt limitation of \$5,000,000,000 for Special Revenue Bonds imposed on the Commission pursuant to Act 44.*

The Commission may, from time to time, issue additional bonds, including Revenue Bonds and Special Revenue Bonds, to help satisfy its payment obligations under Act 44. Such obligations, if issued, are anticipated to be issued on subordinate basis to the Senior Revenue Bonds issued under the Senior Indenture, but will be Parity Obligations of the 2008 Bonds under the Subordinate Indenture and ratably payable with the 2008 Bonds. Upon issuance of the 2008 Bonds, the debt service schedule for each of the outstanding Senior Revenue Bonds, the 2008A-1 Bonds and the 2008A-2 Bonds, together with the combined debt service of the Senior Revenue Bonds and the 2008 Bonds, is set forth on Appendix H attached hereto.

### **Tolling of Interstate 80**

Act 44 grants the Commission the option, at any time before the third anniversary of the Lease, to convert Interstate 80 to a toll road, and thereafter to assume legal, financial and operational responsibility for Interstate 80. The three-year period during which the Commission may elect Conversion (the "Conversion Period") may be extended unilaterally by the Commission for three one-year periods. Interstate 80 traverses northern Pennsylvania for approximately 311 miles from the

Delaware Water Gap Bridge over the Delaware River on the Commonwealth's eastern boundary to the Ohio-Pennsylvania state line on its western boundary. Interstate 80, including the portion located in Pennsylvania, is the second longest Interstate Highway in the United States.

Under Act 44, the Commission may give PennDot notice of the Commission's intent to exercise its option to convert Interstate 80 to a toll road ("Conversion Notice") at any time prior to the expiration of the Conversion Period. On the date the Conversion is effective as set forth in the Conversion Notice (the "Conversion Date"), the Commission shall receive a credit toward its payment obligations under Act 44 for the Interstate 80 operational cost savings of \$116,985,856 per fiscal year (prorated for the fiscal year during which the Conversion occurs), which amount shall be increased by 4% for each fiscal year after the fiscal year in which the Conversion Date occurs.

Act 44 authorizes the Commission, with the cooperation of PennDot, to apply to the Federal Highway Administration (FHWA) under one of its tolling pilot programs for the right to operate and toll Interstate 80. Act 44 requires the Secretary to ensure that all information required for the application is made available to the Commission as soon as practicable.

Act 44 authorizes an open tolling system with no more than ten toll collection points. The Commission may contract with PennDot for any portion of the maintenance of Interstate 80 at cost levels agreed to by PennDot and the Commission. Service plazas are not permitted in the right-of-way along Interstate 80.

The Commission submitted its Preliminary Expression of Interest to the FHWA in August 2007, requesting tolling authority for that portion of Interstate 80 traversing the Commonwealth of Pennsylvania. By a letter dated September 26, 2007, the FHWA replied to the Commission stating that the Interstate System Reconstruction and Rehabilitation Pilot Program (the "Pilot Program") is the appropriate tolling pilot program under which the Commission should apply. The Commission submitted to FHWA a joint application with PennDot on October 13, 2007. On October 15, 2007, Governor Rendell sent a letter supporting the application to United States Department of Transportation Secretary Mary Peters. The FHWA responded to the application with a request for additional information on December 12, 2007. Among FHWA's requests are a clearer identification of the rehabilitation, reconstruction and improvement projects currently being planned for Interstate 80 by the Commission after the Conversion Date, and further information of PennDot's historic funding strategy for Interstate 80. The Commission and PennDot replied to the FHWA on December 20, 2007, and they jointly acknowledged this request for additional information, and confirmed their intent to continue seeking Federal approval for the Conversion. The Commission and PennDot are in the process of preparing an additional submission responsive to the FHWA's request. Representatives of the Commission and PennDot met on January 9, 2008 in Harrisburg with FHWA representatives to discuss the additional information to be included in the updated application. As a result of these discussions, it is anticipated that an amended application will be submitted during 2008. There can be no assurance that the application will be approved by FHWA or that a slot in the Pilot Program will be available for the Commonwealth. See "APPENDIX A - THE PENNSYLVANIA TURNPIKE - Pending and Future Legislation and Recent Developments."

If the application for Conversion is approved, PennDot and the Commission will enter into an agreement with the federal government. The terms of such conversion agreement have not been drafted and there can be no assurance that the proceeds of toll revenue from Interstate 80 may be used to pay some or any portion of the future lease payments due to PennDot under the Lease. In any event, even if the application for Conversion is approved, the Commission retains the right to complete or abandon the Conversion.

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

Act 44 sets forth certain rules relating to governance and accountability of the Commission, including, but not limited to, the filing of an annual financial plan of the Commission with the Pennsylvania Secretary of the Budget no later than June 1 of each year, providing updates to the Chairman and Minority Chairman of the Pennsylvania House and Senate Transportation Committees regarding the conversion of Interstate 80, conducting traffic studies to quantify diversion of traffic from Interstate 80 to other roadways as a result of the Conversion, conducting an audit by the Auditor General every four years to be paid for by the Commission and the adoption by the Commission of a comprehensive code of conduct for Commissioners and executive-level employees.

### **The Project**

The 2008 Bonds are being issued to provide funds (a) to make payments to PennDot in accordance with Act 44 to fund certain grants to mass transit agencies and various road, highway, bridge and capital projects of PennDot, (b) to fund the 2008A Account, or the appropriate subaccount thereof, of the Debt Service Reserve Fund in the amount of \$16,180,970.76, (c) to pay the premium for the Financial Guaranty Insurance Policy, and (d) to pay the costs of issuance of the 2008 Bonds. See "PLAN OF FINANCING."

### **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 attached Appendix G) constitute one of the Commission's three principal streams of revenues. The Tolls are presently pledged to secure the Commission's outstanding turnpike senior revenue bonds (collectively, the "Senior Revenue Bonds") and the Senior Indenture Parity Obligations (the Senior Revenue Bonds and the Senior Indenture Parity Obligations, together with any Senior Indenture Subordinated Indebtedness issued under the Senior Indenture, herein collectively the "Senior Indenture Obligations") which will be subject to or may be issued under the terms of the Senior Indenture. There are currently \$2,151,155,000 aggregate principal amount of Senior Revenue Bonds Outstanding under the Senior Indenture. The lien of the Subordinate Indenture in and to the Trust Estate is subordinate to the lien of the Senior Indenture to the Tolls, and therefore all Subordinate Indenture Bonds, including the 2008 Bonds, and all other Parity Obligations issued by the Commission under the Subordinate Indenture are subordinated to the payment of the Senior Indenture Obligations issued under the Senior Indenture. The Commission may in the future, under the terms of the Senior 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 Senior Indenture. The Commission has not currently determined whether Interstate 80 will be excluded from the System (for purposes of the Senior Indenture). The Tolls are *not* pledged to secure the Oil Franchise Tax Revenue Bonds (as defined below), are *not* pledged to secure the Registration Fee Revenue Bonds (as defined below) and are *not* pledged to secure bonds and other obligations issued under the Subordinate Indenture. The Commission's cash flow from Tolls is only indirectly subject to the lien of the Subordinate Indenture.

*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 \$582,315,000 of which are issued and outstanding. The Oil Franchise Tax Revenue Bonds, the proceeds of which were spent on portions of the Mon/Fayette Expressway and the Southern Beltway, are secured solely by Oil Franchise Tax Revenues.

The Oil Franchise Tax Revenues are not pledged to secure the 2008 Bonds, the Senior Indenture Obligations 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 \$453,205,000 of which are issued and outstanding. The Registration Fee Revenue Bonds, the proceeds of which were spent on portions of the Mon/Fayette Expressway and the Southern Beltway, are secured by Registration Fee Revenues. Registration Fee Revenue Bonds are to be paid solely from the Registration Fee Revenues. The Registration Fee Revenues are *not* pledged to secure the 2008 Bonds, the Senior Indenture Obligations or the Oil Franchise Tax Revenue Bonds.

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

*Future Sources.* In addition to Additional Subordinate Indenture Bonds, the Commission may, from time to time, issue other notes and bonds payable from such sources as may be available so long as the Tolls, the Oil Franchise Tax Revenues securing the Oil Franchise Tax Revenue Bonds or the Registration Fee Revenues securing the Registration Fee Revenue Bonds are *not* pledged to such other notes and bonds or, if pledged, are pledged on a subordinate basis. In addition to anticipated toll increases in the amount of 25% to be implemented in 2009 with annual increases thereafter of 3%, the Commission anticipates that it will borrow substantial additional funds through the year 2024. These projected toll increases may be revised by the Commission if necessary to meet the then existing debt and operational obligations of the Commission.

The ability of the Commission to repay such borrowings could be adversely affected by many factors, some of which are beyond the control of the Commission. For example, economic circumstances which result in significant motor vehicle acquisition or operating cost increases could adversely affect the number of motor vehicles in use. The cost of fuel could continue to increase which could adversely affect both the number of motor vehicles using the System and the mileage that such vehicles travel. Government regulations, such as Clean Air Act requirements, might also significantly restrict motor vehicle use and therefore diminish Tolls. See "APPENDIX A - THE PENNSYLVANIA TURNPIKE -- Toll Schedule and Rates" for further information.

### **CERTAIN RISK FACTORS**

Many factors could affect the sufficiency of the Trust Estate to meet debt service payments on the 2008 Bonds, some of which are discussed below. Potential investors must carefully consider the following factors in order to understand the structure and characteristics of the 2008 Bonds and the potential merits and risks of an investment in the 2008 Bonds. Potential investors must review and be familiar with the following risk factors in deciding whether to purchase any 2008 Bond.

<b>Commission Revenues may decline</b>	The statistical information in this Official Statement regarding toll revenues collected by the Commission are historical. The actual amount of future toll revenues collected by the Commission depends upon a number of factors, including rates established by the Commission and traffic on the System. Many of these factors are beyond the control of the Commission. The Commission is obligated under the terms of the Lease, Act 44, the Senior Indenture and the Subordinate Indenture to fix and revise tolls at levels that will generate revenues (together with other
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	<p>available moneys) sufficient to pay all of its obligations under the Lease, constructing and maintaining the System, paying debt service obligations and other amounts payable to the Department or the Commonwealth. However, the amount of traffic on the System cannot be predicted with certainty, and may decline due to general economic conditions, diversion of some traffic to alternative non-toll routes because of the toll rate increases, the increased price of automotive fuel, and other factors. There is insufficient data to assess these risk factors, but the Commission reasonably expects, based on historical variations in such factors and the planned toll increases, to have sufficient revenues to meet its payment obligations, including payment obligations with respect to the 2008 Bonds.</p>
<p><b>Investors in the 2008 Bonds bear greater risk of non-payment because the priority of payment of interest and principal payments on the 2008 Bonds is subordinate to the Senior Indenture Obligations under the Senior Indenture</b></p>	<p>The 2008 Bonds are subordinate in right of payment from the General Reserve Fund to the payment of all Senior Indenture Obligations under the Senior Indenture. The Revenues (as defined in the attached Appendix G) of the Commission available for the payment of the 2008 Bonds is therefore subordinate to the payment of all such Senior Indenture Obligations. There is no lien under the Senior Indenture or the Subordinate Indenture on any amount held in the General Reserve Fund to secure the 2008 Bonds. In addition, it is possible that additional senior toll bonds and other senior obligations may be issued in the future by the Commission under the Senior Indenture, which would increase the amount of the Senior Indenture Obligations to which the payment on the 2008 Bonds are subordinated, thus increasing the risk of nonpayment to the 2008 Bondholders.</p>
<p><b>The Trust Estate will have limited assets from which to make payments on the 2008 Bonds, which may result in losses</b></p>	<p>The Trust Estate will not include significant assets. The Trust Estate consists primarily of an obligation of the Commission to make periodic payments from funds available in the General Reserve Fund after satisfaction of Senior Indenture Obligations and the maintenance of any reserve fund established under the Senior Indenture. Consequently, Bondholders must rely upon the obligation of the Commission to make such payments from the General Reserve Fund and to set Tolls at sufficient levels to generate the necessary excess cash in the General Reserve Fund for such payments. If these sources of funds are insufficient to repay the 2008 Bonds, Bondholders may experience a loss on their investment.</p>
<p><b>If the Commission experiences financial problems, delays in payment or losses on the 2008 Bonds may result</b></p>	<p>A problem in the financial status of the Commission could result in a failure to make its payments, or a delay in payments, to the Trustee with respect to the 2008 Bonds. The Commission's financial condition could be adversely affected by a number of factors including:</p> <ul style="list-style-type: none"> <li>• Increased costs of operation of the System;</li> <li>• Decreased toll revenues due to declines in usage or otherwise;</li> <li>• Increased costs of operation of Interstate 80, if applicable;</li> <li>• Unanticipated costs of the operation of Interstate 80, if applicable;</li> <li>• Limited permitted uses under Federal law of the toll revenue</li> </ul>

	<p>derived from Interstate 80, if the Conversion occurs;</p> <ul style="list-style-type: none"> <li>• Work stoppage by unionized employees;</li> <li>• Complete or partial destruction or temporary closure of the System due to Act of God events; and</li> <li>• Increased unfunded healthcare and other non-pension post-employment benefits.</li> </ul>
<b>The 2008 Bonds may be repaid early due to the exercise of the redemption option. If this happens, yield may be affected and Bondholders will bear reinvestment risk</b>	The 2008 Bonds may be redeemed on or after June 1, 2019, prior to their final maturity if the Commission exercises its option to redeem the 2008 Bonds. Bondholders bear the risk that monies received cannot be reinvested in comparable securities or at comparable yields.
<b>Certain legislative actions may result in adverse changes to the Commission or Act 44</b>	<p>From time to time legislation is introduced in the Pennsylvania General Assembly which may affect the Commission and therefore may affect certain of the assumptions made in this Official Statement. Several bills have been introduced in the House of Representatives of the Commonwealth which, if enacted, would amend or repeal significant portions of Act 44. The staff of the Commission cannot predict if any of such bills or other legislation will be enacted into law, or how any such legislation may affect the Commission's ability to timely pay the 2008 Bonds.</p> <p>In addition, at the federal level, legislation was introduced in the U.S. Congress that would have adversely affected efforts to convert Interstate 80 to a toll road, but this legislation has not been reported out of committee to date. There can be no assurance that federal legislation blocking or removing the economic incentives for conversion of Interstate 80 to a toll road will not be enacted in the future.</p>
<b>Application to FHWA for approval of conversion of Interstate 80 may not be approved or may be delayed</b>	There can be no assurance that the application filed by the Commission and PennDot with the FHWA for approval of conversion of Interstate 80 to a toll road will be approved or will not be substantially delayed. Certain United States Representatives whose districts are near Interstate 80 have urged the U.S. Secretary of Transportation not to approve the application. If such conversion does not occur, the scheduled annual payment obligations of the Commission under the Lease will be decreased, but the anticipated toll revenues from Interstate 80 will not be collected. Even if the application process results in the permission by the federal government to toll Interstate 80, the final decision to complete the Conversion remains at the discretion of the Commission.
<b>Certain actions can be taken without Bondholder approval</b>	The transaction documents provide that certain actions may be taken based upon receipt by the Trustee of confirmation from each of the Rating Agencies then rating the 2008 Bonds that the then current ratings assigned by such Rating Agencies will not be impaired by those actions. To the extent those actions are taken after issuance of the 2008 Bonds, investors in the 2008 Bonds will be depending on the evaluation by the Rating Agencies of those actions and the impact of those actions on

	credit quality.
<b>Bankruptcy risk; Lien position</b>	Payment of the 2008 Bonds is not secured by a perfected lien on any amount of funds on deposit in the General Reserve Fund, or on any toll revenues collected by the Commission. In the event of insolvency or bankruptcy of the Commission, the Bondholders claim to any assets of the Commission, whether in the General Reserve Fund or otherwise, would be junior and subject to the rights of the trustee in the bankruptcy estate. In addition, any payments received by the Trustee on the 2008 Bonds within ninety (90) days of the commencement of a bankruptcy petition regarding the Commission would be subject to rescission and disgorgement back to the bankruptcy estate of the Commission. Any payments made by the Commission after the commencement of a bankruptcy action could be made only upon approval of the applicable bankruptcy court. In addition, in the event that an unsatisfied judgment creditor of the Commission levies the General Reserve Fund, such lien would be entitled to satisfaction in full from funds on deposit in the General Reserve Fund prior to payment of the 2008 Bonds.
<b>Uncertainty as to available remedies</b>	The remedies available to owners of the 2008 Bonds upon an Event of Default under the Subordinate Indenture or other documents described herein are in many respects dependent upon regulatory and judicial actions which often are subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code, the remedies specified by the Subordinate Indenture and such other documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the issuance of the 2008 Bonds will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

## DESCRIPTION OF THE 2008 BONDS

### Generally

The 2008 Bonds are being issued by the Commission under the Act and pursuant to the Subordinate Indenture and will be dated the date of issuance. The 2008 Bonds are being issued pursuant to the Supplemental Subordinate Indenture No. 1 in two subseries of bonds designated as the Pennsylvania Turnpike Commission Turnpike Subordinate Revenue Bonds, Subseries A-1 of 2008, and the Pennsylvania Turnpike Commission Turnpike Subordinate Revenue Bonds, Subseries A-2 of 2008 (Federally Taxable). The 2008A-2 Bonds are being issued as federally taxable bonds. The 2008 Bonds will bear interest from such date payable on June 1 and December 1 of each year (each, an "Interest Payment Date"), commencing December 1, 2008. The 2008 Bonds will mature in the amounts and on the dates, and bear interest at the rates, set forth on the inside cover page hereof. Interest shall be calculated on the basis of a year of 360 days consisting of twelve 30-day months. Principal or redemption price of the 2008 Bonds will be paid, when due, upon presentation and surrender of the 2008 Bonds at the designated office of the Trustee and Paying Agent. The Record Date for each series of the 2008 Bonds shall be the fifteenth day of the month immediately preceding each June 1 or December 1, as applicable. The 2008 Bonds will be subject to the redemption provisions set forth below.



The 2008 Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. As provided in the Subordinate Indenture, the principal or redemption price of the 2008 Bonds is payable at the designated payment office of the Trustee located in Philadelphia, Pennsylvania. Interest on the 2008 Bonds shall be paid to the person whose name appears on the bond registration books of the Trustee as the holder thereof as of the close of business on the Record Date for each Interest Payment Date. Payment of the interest on the 2008 Bonds shall be made by check mailed by first class mail to such holder at its address as it appears on such registration books, or, upon the written request of any holder of at least \$1,000,000 in aggregate principal amount of 2008 Bonds, submitted to the Trustee at least one business day prior to the Record Date, by wire transfer in immediately available funds to an account within the United States designated by such holder. If the Commission defaults in the payment of interest due on any Interest Payment Date, defaulted interest will be payable to the person in whose name such 2008 Bond is registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Trustee to the Bondholders not less than ten days prior to such special record date. Such notice of the special record date will be mailed to the persons in whose names the 2008 Bonds are registered at the close of business on the 5th day preceding the date of mailing.

Upon original issuance, the 2008 Bonds will be registered in the name of and held by Cede & Co., as registered holder and nominee for DTC. Each of the 2008A-1 Bonds and the 2008A-2 Bonds initially will be issued as one fully registered certificate for each maturity and such subseries. Purchases of the 2008 Bonds will initially be made in book-entry form. See APPENDIX D "Securities Depository" herein. Appendix D also describes the global clearance procedures of the Euroclear and Clearstream Systems. As long as the 2008 Bonds are registered in the name of DTC or its nominee, Cede & Co., payments of the principal of, redemption premium, if any, and interest on the 2008 Bonds will be paid directly to Cede & Co. by wire transfer by Commerce Bank, National Association, Philadelphia, Pennsylvania, as Paying Agent (the "Paying Agent") on each Interest Payment Date. While the book-entry only system is in effect, transfers and exchanges of the 2008 Bonds will be effected through DTC's book-entry system.

DTC may determine to discontinue providing its service with respect to the 2008 Bonds at any time by giving notice to the Commission and discharging its responsibilities with respect thereto under applicable law or the Commission may determine to discontinue the system of book-entry-only transfers through DTC (or a successor securities depository). Under such circumstances, 2008 Bonds will be authenticated and delivered as provided in the Subordinate Indenture to the Beneficial Owners of the 2008 Bonds, who shall then become the registered owners thereof.

If the book-entry-only system is discontinued and the Beneficial Owners become registered owners of the 2008 Bonds, the Commission shall immediately advise the Trustee in writing of the procedures for transfer of the 2008 Bonds from book-entry-only form to a fully registered form.

### **Registration, Transfer and Exchange**

The Trustee shall act as initial 2008 Bond registrar (the "2008 Bond Registrar") and in such capacity shall maintain a 2008 Bond register (the "2008 Bond Register") for the registration and transfer of 2008 Bonds. Upon surrender of any 2008 Bonds at the designated office of the Trustee, as the 2008 Bond Registrar, together with an assignment duly executed by the current 2008 Bondholder of such 2008 Bonds or such 2008 Bondholder's duly authorized attorney or legal representative in such form as shall be satisfactory to the Trustee, such 2008 Bonds may, at the option of the 2008 Bondholder, be exchanged for an equal aggregate principal amount of 2008 Bonds of the same Series and maturity, of Authorized Denominations and bearing interest at the same rate and in the same form as the 2008 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 2008 Bonds after the giving of notice calling such 2008 Bond for redemption, in whole or in part. The Commission shall execute and the Trustee shall authenticate any 2008 Bonds whose execution and authentication is necessary to provide for exchange of 2008 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 2008 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 2008 Bond delivered upon such exchange or transfer, which charge or charges shall be paid before any new 2008 Bond shall be delivered.

Prior to due presentment for registration of transfer of any 2008 Bond, the Trustee shall treat the Person shown on the 2008 Bond Register as owning a 2008 Bond as the 2008 Bondholder and the Person exclusively entitled to payment of principal thereof, redemption premium, if any, and interest thereon and, except as otherwise expressly provided herein, 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.

The Trustee shall not be required to (i) transfer or exchange any 2008 Bond during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of such 2008 Bond and ending at the close of business on the day of such mailing, or (ii) transfer or exchange any 2008 Bond so selected for redemption in whole or in part, or during a period beginning at the opening of business on any Record Date for such 2008 Bond and ending at the close of business on the relevant Interest Payment Date therefor. See also "THE 2008 BONDS – Book-Entry Only System" herein for further information regarding registration, transfer and exchange of the 2008 Bonds.

The Subordinate Indenture and the Supplemental Subordinate Indenture No. 1, and all provisions thereof, are incorporated by reference in the text of the 2008 Bonds, and the 2008 Bonds provide that each registered owner, Beneficial Owner, Participant or Indirect Participant (as such terms are defined hereinafter) by acceptance of a 2008 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 2008 Bond.

### **Redemption of Subordinate Indenture Bonds**

*Generally.* The Subordinate Indenture Bonds of any Series or Sub-Series issued under the provisions of the Subordinate Indenture, including the 2008 Bonds, shall be subject to redemption, in whole or in part, and at such times and prices as may be provided in the applicable supplemental indenture to the Subordinate Indenture pursuant to which such Subordinate Indenture Bonds are issued.

If less than all of the Subordinate Indenture Bonds of a Series or Sub-Series are called for redemption, they shall be redeemed in such order of maturity as provided in the applicable supplemental indenture to the Subordinate Indenture, and by lot within any maturity (provided, however, that if an Event of Default has occurred and is continuing, any Subordinate Indenture 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 Subordinate Indenture Bond to be redeemed shall be an Authorized Denomination or any multiple thereof and in selecting Subordinate Indenture Bonds for redemption, each Subordinate Indenture Bond shall be considered as representing that number of Subordinate Indenture Bonds which is obtained by dividing the principal amount of such Subordinate Indenture Bond by the minimum Authorized Denomination. If a portion of an Subordinate Indenture

Bond shall be called for redemption, a new Subordinate Indenture Bond in principal amount equal to the unredeemed portion thereof shall be issued to the bondholder thereof upon the surrender of such Subordinate Indenture Bond. If for any reason the principal amount of Subordinate Indenture Bonds called for redemption would result in a redemption of Subordinate Indenture Bonds less than the Authorized Denomination, the Trustee, to the extent possible within the principal amount of Subordinate Indenture Bonds to be redeemed, is authorized to adjust the selection of Subordinate Indenture Bonds for such purpose in order to minimize any such redemption. Notwithstanding the foregoing, the Securities Depository for Book-entry Bonds shall select the Subordinate Indenture Bonds for redemption within particular maturities according to its stated procedures.

*Notice of Redemption.* When Subordinate Indenture Bonds (or portions thereof) are to be redeemed, the Commission shall give or cause to be given notice of the redemption of the Subordinate Indenture 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 below.

The Trustee, at the expense of the Commission, shall send notice of any redemption, identifying the Subordinate Indenture Bonds to be redeemed, the redemption date and the method and place of payment and the information set forth in the following paragraph, by first class mail to each holder of a Subordinate Indenture Bond called for redemption to the holder's address listed on the Subordinate Indenture 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 applicable supplemental indenture to the Subordinate Indenture for such Subordinate Indenture 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 of a redemption is given as provided in the Subordinate Indenture, failure of any Subordinate Indenture 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 Subordinate Indenture Bonds.

In addition to the foregoing, the redemption notice shall contain with respect to each Subordinate Indenture 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 Subordinate Indenture 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 Subordinate Indenture 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 Subordinate Indenture Bonds; (iii) all Nationally Recognized Municipal Securities Information Repositories, a Pennsylvania State Information Depository and any similar entities which are required recipients by reason of continuing disclosure undertakings or regulatory requirements, such services to be identified by the Trustee, and (iv) one or more other national information services that disseminate notices of redemption of bonds such as the Subordinate Indenture Bonds, such services to be identified by the Trustee.

On or before the date fixed for redemption, subject to the terms of a Conditional Redemption, 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 Subordinate Indenture Bonds called for redemption. Upon the deposit of such moneys, unless the Commission has given notice of rescission as described in the following paragraph, the Subordinate Indenture Bonds shall cease to bear interest on the redemption date and shall no longer be entitled to the benefits of the Subordinate Indenture (other than for payment and transfer and exchange) and shall no longer be considered Outstanding.

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 Subordinate Indenture Bondholders. Any Subordinate Indenture 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.

*Purchase of Subordinate Indenture Bonds at Any Time.* The Trustee, upon the written request of the Commission, shall purchase Subordinate Indenture Bonds as specified by the Commission in the open market at a price not exceeding the price specified by the Commission. Such purchase of Subordinate Indenture Bonds shall be made with funds available under the Subordinate Indenture or provided by the Commission in such written request. Upon purchase by the Trustee, such Subordinate Indenture Bonds shall be treated as delivered for cancellation under the terms of the Subordinate Indenture. Nothing in the Subordinate Indenture shall prevent the Commission from purchasing Subordinate Indenture Bonds on the open market without the involvement of the Trustee and delivering such Subordinate Indenture Bonds to the Trustee for cancellation under the Subordinate Indenture. Subordinate Indenture Bonds purchased by the Commission and delivered to the Trustee under the terms of the Subordinate Indenture which are subject to a mandatory sinking fund redemption schedule may be credited against future mandatory sinking fund redemption payments. The principal amount of Subordinate Indenture Bonds to be redeemed by optional redemption may be reduced by the principal amount of Subordinate Indenture Bonds purchased by the Commission and delivered to the Trustee for cancellation at least fifteen (15) days prior to the last date on which the notice of Redemption can be mailed.

*Costs of Redemptions.* The payment of the necessary costs and expenses of such redemptions, including, without limiting the generality of the foregoing, all reasonable legal fees, costs of advertisements, printing costs, brokerage charges and charges of the Trustee, if any, incident to such redemption, shall be payable by the Commission from moneys in the General Reserve Fund or from such other source as is identified in a certificate of a Commission Official.

## **Redemption of 2008 Bonds**

### **Optional Redemption of 2008A-1 Bonds.**

The 2008A-1 Bonds maturing on or after June 1, 2022, are subject to optional redemption prior to maturity by the Commission at any time on and after June 1, 2018, 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.

**Optional Redemption of 2008A-2 Federally Taxable Bonds.**

The 2008A-2 Bonds maturing on or after June 1, 2022, are subject to optional redemption prior to maturity by the Commission at any time on and after June 1, 2018, 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 Sinking Fund Redemption of 2008 Bonds.**

The 2008A-1 Bonds maturing on June 1, 2033 and June 1, 2038 shall be subject to mandatory sinking fund redemption prior to maturity by the Commission in part on June 1 of the respective years and in the amount set forth below, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date:

\$3,600,000 4.625% Term Bonds Due June 1, 2033

<u>Year</u>	<u>Principal Amount</u>
2030	\$900,000
2031	900,000
2032	900,000
2033*	900,000

\$41,405,000 5.000% Term Bonds Due June 1, 2033

<u>Year</u>	<u>Principal Amount</u>
2030	\$9,545,000
2031	10,065,000
2032	10,610,000
2033*	11,185,000

\$2,820,000 4.700% Term Bonds Due June 1, 2038

<u>Year</u>	<u>Principal Amount</u>
2034	\$560,000
2035	560,000
2036	560,000
2037	560,000
2038*	580,000

\$67,245,000 5.000% Term Bonds Due June 1, 2038

<u>Year</u>	<u>Principal Amount</u>
2034	\$12,125,000
2035	12,755,000
2036	13,420,000
2037	14,115,000
2038*	14,830,000

The 2008A-2 Bonds maturing on June 1, 2018 and June 1, 2022 shall be subject to mandatory sinking fund redemption prior to maturity by the Commission in part on June 1 of the respective years and in the amount set forth below, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date:

\$15,745,000 5.490% Term Bonds Due June 1, 2018

<u>Year</u>	<u>Principal Amount</u>
2016	\$4,970,000
2017	5,245,000
2018*	5,530,000

\$24,740,000 6.410% Term Bonds Due June 1, 2022

<u>Year</u>	<u>Principal Amount</u>
2019	\$5,835,000
2020	6,210,000
2021	6,610,000
2022*	6,085,000

\* Stated Maturity

**Partial Redemption of 2008 Bonds.**

Except as to any Mandatory Sinking Fund Redemption of 2008 Bonds as described above, any partial redemption may be in any order of maturity and in any principal amount within a maturity as designated by the Commission and in the case of any 2008 Bonds, and Subseries thereof, subject to mandatory redemption, the Commission shall be entitled to designate whether such payments shall be credited against principal amounts due at maturity or against particular scheduled mandatory redemption obligations with respect to such 2008 Bonds and Subseries thereof.

**PLAN OF FINANCING**

The 2008 Bonds are being issued to provide funds (a) to make payments to PennDot in accordance with Act 44 to fund certain grants to mass transit agencies and various road, highway, bridge and capital projects of PennDot, (b) to fund the 2008A Account, or the appropriate subaccount thereof, of the Debt Service Reserve Fund in the amount of \$16,180,970.76, (c) to pay the premium for the Financial Guaranty Insurance Policy, and (d) to pay the costs of issuance of the 2008 Bonds.

**ESTIMATED SOURCES AND USES OF FUNDS**

<b>SOURCES OF FUNDS</b>	<u>2008A-1 Bonds</u>	<u>2008A-2 Bonds</u>	<u>Total</u>
Par Amount of 2008 Bonds	\$176,565,000.00	\$68,290,000.00	\$244,855,000.00
Net Original Issue Premium/(Discount)	<u>4,950,779.30</u>	N/A	<u>4,950,779.30</u>
<b>TOTAL SOURCES</b>	<u>\$181,515,779.30</u>	<u>\$68,290,000.00</u>	<u>\$249,805,779.30</u>
<b>USES OF FUNDS</b>			
2008 Project Expenditures	\$166,666,666.67	\$62,500,000.00	\$229,166,666.67
Deposit to Debt Service Reserve Fund <sup>1</sup>	11,668,101.95	4,512,868.81	16,180,970.76
Costs of Issuance <sup>2</sup>	<u>3,181,010.68</u>	<u>1,277,131.19</u>	<u>4,458,141.87</u>
<b>TOTAL USES</b>	<u>\$181,515,779.30</u>	<u>\$68,290,000.00</u>	<u>\$249,805,779.30</u>

<sup>1</sup> Deposit to the 2008A Account, or the appropriate subaccount thereof, established in the Debt Service Reserve Fund.

<sup>2</sup> Costs of Issuance include underwriters' discount, Bond Counsel fee, Underwriters' Counsel fee, bond insurance premium and other legal fees, printing expenses, rating agency fees, Financial Advisor's fee, Trustee's fee and contingency.

## SECURITY FOR THE 2008 BONDS

The 2008 Bonds are limited obligations of the Commission. They are secured, along with any future Subordinate Indenture Bonds and other Parity Obligations, under the Subordinate Indenture, except as otherwise noted below, by the pledge by the Commission to the Trustee of (1) the Commission Payments, (2) all monies deposited into accounts or funds (other than the Rebate Fund) created by the Subordinate Indenture and held by or on behalf of the Trustee, (3) any insurance proceeds and other moneys required to be deposited therein, (4) all payments received by the Commission pursuant to Parity Swap Agreements, and (5) all investment earnings on all moneys held in accounts and funds established by the Subordinate Indenture, other than the Rebate Fund (collectively, the "Trust Estate"); provided, however, and notwithstanding the foregoing, (i) the Series 2008A Account of the Debt Service Reserve Fund is pledged to the Trustee solely for the benefit of the Holders of the 2008 Bonds. THE LIEN CREATED BY THE SUBORDINATE INDENTURE IN AND TO EACH COMMISSION PAYMENT PAID FROM THE GENERAL RESERVE FUND IS SUBORDINATE TO THE LIENS OF THE SENIOR INDENTURE IN AND TO THE TOLLS, OTHER REVENUES AND FUNDS ESTABLISHED UNDER THE SENIOR INDENTURE AND PLEDGED BY THE COMMISSION AS PART OF THE SENIOR TRUST ESTATE.

The Subordinate Indenture further provides that the Commission may not issue Additional Subordinate Indenture Bonds nor incur other Parity Obligations except upon satisfaction of various requirements as expressly provided in the Subordinate Indenture. See "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE INDENTURE - LIMITATIONS ON ISSUANCE OF ADDITIONAL SUBORDINATE INDENTURE BONDS AND EXECUTION OF APPROVED SWAP."

**The 2008 Bonds are Debt Service Reserve Fund Bonds for the purpose of the Subordinate Indenture and, accordingly, are secured by moneys on deposit in the 2008A Account, or the appropriate subaccount thereof, of the Debt Service Reserve Fund.** The 2008A Account, and each appropriate subaccount thereof, have been established as part of the Debt Service Reserve Fund. On the date of the issuance of the 2008 Bonds an amount equal to \$16,180,970.76 from proceeds of the 2008 Bonds shall be deposited to the 2008A Account, or the appropriate subaccount thereof, of the Debt Service Reserve Fund. Such amount is sufficient to fulfill the Debt Service Reserve Fund Requirement of the Subordinate Indenture with respect to the 2008 Bonds, which currently constitute all outstanding Debt Service Reserve Fund Bonds outstanding under the Subordinate Indenture.

TOLL REVENUES, OIL FRANCHISE TAX REVENUES AND REGISTRATION FEE REVENUES (EXCEPT FOR DEPOSITS MADE BY THE COMMONWEALTH TO THE GUARANTEED BONDS RECEIPTS ACCOUNT, WHICH ACCOUNT DOES NOT SECURE THE 2008 BONDS), AS WELL AS OTHER SOURCES OF THE COMMISSION'S REVENUES ARE NOT PLEDGED UNDER THE SUBORDINATE INDENTURE AS PART OF THE TRUST ESTATE. THE TRUST ESTATE IS LIMITED TO FUNDS AVAILABLE AND TRANSFERRED TO THE TRUSTEE FROM THE GENERAL RESERVE FUND AND OTHER AMOUNTS ON DEPOSIT WITH THE TRUSTEE. THE TRUST ESTATE AS DEFINED IN THE SUBORDINATE INDENTURE

EXCLUDES ALL MONIES HELD IN THE REBATE FUND ESTABLISHED UNDER THE SUBORDINATE INDENTURE.

The Subordinate Indenture further provides that the Commission may not issue Additional Subordinate Indenture Bonds nor incur other Parity Obligations except upon satisfaction of various requirements as expressly provided in the Subordinate Indenture. See "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE INDENTURE - LIMITATIONS ON ISSUANCE OF ADDITIONAL SUBORDINATE INDENTURE BONDS AND EXECUTION OF APPROVED SWAP."

**THE 2008 BONDS ARE LIMITED OBLIGATIONS OF THE COMMISSION AND 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 THEREFORE OR TO MAKE ANY APPROPRIATION FOR THE PAYMENT OF ANY OF THE 2008 BONDS.**

#### **Senior Revenue Bonds and Other Senior Parity Obligations**

The Commission has previously issued Senior Revenue Bonds under the Senior Indenture. Currently, \$2,151,155,000 aggregate principal amount of Senior Revenue Bonds are Outstanding. Under the terms of the Senior Indenture the Commission may issue additional Senior Revenue Bonds. THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON ALL SUCH SENIOR REVENUE BONDS WILL BE PAID PRIOR TO THE PAYMENT THE SUBORDINATE INDENTURE BONDS, INCLUDING THE 2008 BONDS.

In addition to the Outstanding Senior Revenue Bonds, the Commission has entered into various interest rate exchange agreements with an outstanding notional amount of \$1,402,125,000 that constitute Senior Parity Swap Agreements under the Senior Indenture. Under the terms of the Senior Indenture, amounts payable under Senior Parity Swap Agreements, including certain termination payments, are secured on a parity with the Senior Revenue Bonds in the Trust Estate and senior to the liens of the Subordinate Indenture in the Trust Estate. Under the terms of the Senior Indenture the Commission may issue additional Senior Parity Swap Agreements. ALL AMOUNTS PAYABLE UNDER ALL SUCH SENIOR PARITY SWAP AGREEMENTS, INCLUDING CERTAIN TERMINATION PAYMENTS, WILL BE PAID PRIOR TO THE PAYMENT THE SUBORDINATE INDENTURE BONDS, INCLUDING THE 2008 BONDS.

The Commission has also issued Oil Franchise Tax Revenue Bonds that are currently outstanding in the aggregate principal amount of \$582,315,000 and Registration Fee Revenue Bonds that are currently outstanding in the aggregate principal amount of \$453,205,000. The Commission has entered into various interest rate exchange agreements with respect to certain Oil Franchise Tax Revenue Bonds and Registration Fee Revenue Bonds. Neither the Oil Franchise Tax Revenue Bonds nor the Registration Fee Revenue Bonds are secured by or have any interest in the Trust Estate. Furthermore, neither the Oil Franchise Tax Revenues nor the Registration Fee Revenues (except for deposits of Registration Fee Revenues made by the Commonwealth to the Guaranteed Bonds Receipts Account, which account does not secure the 2008 Bonds) are pledged to secure the 2008 Bonds or the Senior Indenture Obligations.

#### **Subordinate Indenture Bonds and Other Parity Obligations**

The 2008 Bonds are the first series of bonds issued by the Commission under the Subordinate Indenture. Upon the fulfillment of conditions set forth in the Subordinate Indenture, the Commission may



issue Additional Subordinate Indenture Bonds under the terms of the Subordinate Indenture; and such Additional Subordinate Indenture Bonds will have an equal claim to the Trust Estate with the 2008 Bonds of the same Class. However, all such Additional Subordinate Indenture Bonds issued under the terms of the Subordinate Indenture shall be subordinate to the payment of all Senior Indenture Obligations issued pursuant to the Senior Indenture. See "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE INDENTURE."

In addition to any Additional Subordinate Indenture Bonds, the Commission is authorized under the terms of the Subordinate Indenture to enter into various interest rate exchange agreements that will constitute Parity Swap Agreements under the Subordinate Indenture. To date Commission has not entered into any such Parity Swap Agreements under the Subordinate Indenture. Under the terms of the Subordinate Indenture, amounts payable under Parity Swap Agreements entered into by the Commission, including certain termination payments, may be secured on a parity with the Subordinate Indenture Bonds, including the 2008 Bonds, in the Trust Estate. See "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE INDENTURE."

### **Rate Covenant**

The Commission has agreed in the Subordinate 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 the sum required by the Senior Indenture and, in addition, so that the amount paid into the General Reserve Fund of the Senior Indenture in each Fiscal Year and for each Commission Payment, will at all times (after deducting any liquidity reserve or other required holdback or deposit then in effect, whether by contract or other management policy or procedure) be at least sufficient to provide funds in an amount not less than (i) 115% of the Annual Debt Service for such Fiscal Year on account of all Outstanding Revenue Bonds and Revenue Bonds Parity Obligations, plus (ii) 100% of the Annual Debt Service for such Fiscal Year on account of all Outstanding Guaranteed Bonds, Guaranteed Bonds Parity Obligations and Subordinated Indebtedness, plus (iii) any payment by the Commission required by the Subordinate Indenture for restoring any deficiency in the Debt Service Reserve Fund within an eighteen (18) month period (the "Rate Covenant").

The amounts of the Commission Payments made from the Senior Trustee to the Trustee are based on the coverage levels established by the Rate Covenant described above, therefore in each year the Commission has covenanted to transfer Commission Payments in an amount equal to the sum of (i) 115% of the Annual Debt Service for such Fiscal Year on account of all Outstanding Revenue Bonds and Revenue Bonds Parity Obligations, plus (ii) 100% of the Annual Debt Service for such Fiscal Year on account of all Outstanding Guaranteed Bonds, Guaranteed Bonds Parity Obligations and other Subordinated Indebtedness, plus (iii) any payment by the Commission required by the Subordinate Indenture for restoring any deficiency in the Debt Service Reserve Fund within an eighteen (18) month period. Notwithstanding the provisions of the Rate Covenant however, any balance in the General Reserve Fund which a Commission Official determines to be in excess of the amount required to be reserved therein for future transfers to the Senior Indenture Debt Service Fund (as herein defined) is available to make Commission Payments to the Trustee for the payment of Debt Service on Outstanding Revenue Bonds and Revenue Bonds Parity Obligations as well as Outstanding Guaranteed Bonds, Guaranteed Bonds Parity Obligations and other Subordinated Indebtedness. See "SECURITY FOR THE 2008 BONDS - The General Reserve Fund Under the Senior Indenture", "SECURITY FOR THE 2008 BONDS - Commission Payments" and "INTRODUCTION - Payments to PennDot for Roads, Bridges and Transit".

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

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

In preparing its recommendations, the Consultant may rely upon written estimates of Revenues prepared by the other Consultants of the Commission. Copies of such written estimates signed by such Consultants shall be attached to such recommendations. The Commission covenants that promptly after receipt of such recommendations and the adoption of any revised schedules of Tolls, certified copies thereof will be filed with the Trustee. The ability of the Commission to collect Tolls in an amount sufficient to comply with the Rate Covenant could be adversely affected by many factors, some of which are beyond the Commission's control. See "CERTAIN RISK FACTORS" and "APPENDIX A - THE PENNSYLVANIA TURNPIKE - Toll Schedule and Rates".

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 Subordinate Indenture, which includes, among others, for operational or safety reasons including, but not limited to, reasons arising out of a work stoppage, work slowdown or work action, and for use by the Army, Air Force, Navy, Coast Guard, Marine Corps or National Guard or any branch thereof in time of war or other emergency.

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

classification or any new classification which would cause the Commission to fail to meet the Rate Covenant.

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

### **The General Reserve Fund under the Senior Indenture**

THIS DISCUSSION DESCRIBES CERTAIN PROVISIONS OF THE SENIOR INDENTURE:

In addition to any other funds created by a supplemental indenture to the Senior Indenture, the following funds exist under the Senior Indenture: (a) Construction Fund, (b) Revenue Fund (herein, the "Senior Indenture Revenue Fund"), (c) Debt Service Fund (herein, the "Senior Indenture Debt Service Fund"), (d) Debt Service Reserve Fund (herein, the "Senior Indenture Debt Service Reserve Fund"), (e) Reserve Maintenance Fund (herein, the "Senior Indenture Reserve Maintenance Fund), (f) General Reserve Fund, and (g) Rebate Fund (herein, the "Senior Indenture Rebate Fund").

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

Except as otherwise provided in the Senior Indenture, transfers from the Senior Indenture Revenue Fund shall be made to the following funds and in the following order of priority: (i) Senior Indenture Rebate Fund, (ii) Senior Indenture Operating Account, (iii) Senior Indenture Debt Service Fund, (iv) Senior Indenture Reserve Maintenance Fund, (v) Senior Indenture Debt Service Reserve Fund, and (vi) General Reserve Fund (after retaining in the Senior Indenture Revenue Fund, such funds identified by the Commission for future transfers to the Senior Indenture Debt Service Fund established under the Senior Indenture).

After first having made the deposits to the Senior Indenture Rebate Fund, the Senior Indenture Operating Account, the Senior Indenture Debt Service Fund, the Senior Indenture Reserve Maintenance Fund and Senior Indenture Debt Service Reserve Fund, the Senior Trustee shall transfer from the Senior Indenture Revenue Fund on or before the last Business Day of each 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 Senior Indenture 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 Senior 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 Senior Bonds;
- (b) To secure and pay the principal or redemption price of and interest on any Senior Indenture Subordinated Indebtedness;

- Indenture;
- (c) To make payments into the Construction Fund established under the Senior Indenture;
  - (d) To fund improvements, extensions and replacements of the System; or
  - (e) To further any corporate purpose.

The Senior Trustee is authorized under the Senior Indenture 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:

- (i) 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 Senior Trustee under the Senior Indenture or to a fund or account held by the Commission and not subject to the Senior Indenture, the name of such fund or account,
- (ii) the amount to be paid, and
- (iii) the purpose for which the payment is to be made.

Under the terms of the Subordinate Indenture, the Commission covenants to instruct the Senior Trustee to pay to the Trustee, out of the General Reserve Fund established under the Senior Indenture such amounts as are required by Subordinate Indenture or by a supplemental indenture to the Subordinate Indenture to pay, at the times specified, debt service on all outstanding Subordinate Indenture Bonds (including the 2008 Bonds) and all Parity Obligations issued under the Subordinate Indenture. See "SECURITY FOR THE 2008 BONDS - Commission Payments". Accordingly, the Commission shall furnish written instructions, or furnish a debt service schedule to, the Senior Trustee providing for the payment to the Trustee out of funds held in the General Reserve Fund such funds as are required to pay debt service on the outstanding Subordinate Indenture Bonds (including the 2008 Bonds), the Parity Obligations and all other payments required under the Subordinate Indenture at such times and all other payments under the Subordinate Indenture on such terms as are set forth in the Senior Indenture, in the Subordinate Indenture or in a supplemental indenture to the Subordinate Indenture (the "Commission Payments").

The following chart sets forth the balances held in the General Reserve Fund as of the fiscal year end dates set forth below.

**General Reserve Fund Balances  
as of May 31**

<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
\$83,452,977	\$35,503,500	\$24,163,488	\$10,158,417	\$20,587,478

The decline in the balance of the General Reserve Fund as of May 31, 2004 in comparison to the previous year end date reflects permitted withdrawals from the General Reserve Fund to fund increased capital expenditures during the period under the Commission's Capital Improvement Program. Balances in the General Reserve Fund may be applied in the future for capital expenditures of the Commission and for other general corporate purposes. In addition, Annual Surplus Payments, if any, made by the Commission to PennDot under the Lease, will be payable solely from funds available for such purpose in the General Reserve Fund. See "INTRODUCTION - Payments to PennDot for Roads, Bridges and Transit".

## Commission Payments

Pursuant to the terms of the Subordinate Indenture, the Commission covenants, after payment of all required debt service on all Senior Indenture Obligations issued under the Senior Indenture and subject to the provisions of the Senior Indenture, to pay to the Trustee, and to instruct the Senior Indenture Trustee to pay to the Trustee, out of the General Reserve Fund established under the Senior Indenture such amounts as are required by the Subordinate Indenture or by a supplemental indenture to the Subordinate Indenture to pay, at the times specified, required payments with respect to all Subordinate Revenue Bonds issued under the Subordinate Indenture, a supplemental indenture to the Subordinate Indenture and all Parity Obligations. Such payments out of the General Reserve Fund shall only take on the character of being "Commission Payments", as described below, upon their transmittal to the Trustee and nothing in the Subordinate Indenture shall be construed to create any lien on any amount while held in the General Reserve Fund.

Accordingly, the Commission shall instruct, or furnish a debt service schedule to, the Senior Trustee providing for the payment to the Trustee out of funds held in the General Reserve Fund monies to pay such amounts as are required by the Subordinate Indenture with respect to the outstanding bonds issued under the Subordinate Indenture, a Supplement thereto, Parity Obligations thereunder and all other payments required thereunder at such times on such terms as are set forth hereunder or in a Supplemental Indenture (collectively, the "Commission Payments").

In addition to other payments and General Reserve Fund withdrawals required under the Subordinate Indenture or by a supplemental indenture to the Subordinate Indenture, the Commission shall withdraw, or arrange for the withdrawal, from the General Reserve Fund and deposit to the Commission Payments Fund the amounts hereinafter specified which shall be applied by the Trustee for the purposes for which the same shall be deposited:

(i) On or before the first Business Day of each calendar month commencing on the first Business Day of the sixth month prior to the next succeeding Interest Payment Date, an amount which equals the amount necessary to pay, and for the purpose of paying, one-sixth (1/6) of 115% of the interest due on any Fixed Rate Bonds, issued as Revenue Bonds (including the 2008 Bonds), on the next succeeding Interest Payment Date including any amount due to the Bond Insurer in respect thereto (or, in the case of the period from the date of issuance of such Fixed Rate Bonds to the first Interest Payment Date for the applicable Fixed Rate Bonds, a monthly amount equal to 115% of the interest amount owed on such first Interest Payment Date divided by the number of months from the date of issuance of such Fixed Rate Bond to such first Interest Payment Date), which amount shall be deposited promptly in the Commission Payments Fund;

(ii) On or before the first Business Day of each calendar month commencing on the first Business Day of the twelfth month prior to the next succeeding principal payment date, an amount which equals one-twelfth (1/12) of the amount necessary to pay and for the purpose of paying, 115% the principal amount of any Fixed Rate Bonds issued as Revenue Bonds (including the 2008 Bonds) maturing on the next succeeding maturity date (or, in the case of the period from the date of issuance of such Fixed Rate Bonds to the first date on which principal is due on such Fixed Rate Bonds, a monthly amount equal to 115% of the principal amount owed on such first principal maturity date divided by the number of months from the date of issuance of such Fixed Rate Bond to such first principal maturity date), which amount shall be deposited promptly in the Commissions Payments Fund;

(iii) On or before the fifteenth Business Day of each calendar month commencing on the fifteenth Business Day of the sixth month prior to the next succeeding Interest Payment Date, but not before making the required deposits in clauses (i) and (ii) above, an amount which equals the amount necessary to pay, and for the purpose of paying, one-sixth (1/6) of 100% of the interest due on any Fixed Rate Bonds, issued as Guaranteed Bonds, on the next succeeding Interest Payment Date including any amount due to the Bond Insurer in respect thereto (or, in the case of the period from the date of issuance of such Fixed Rate Bonds to the first Interest Payment Date for the applicable Fixed Rate Bonds, a monthly amount equal to 100% of the interest amount owed on such first Interest Payment Date divided by the number of months from the date of issuance of such Fixed Rate Bond to such first Interest Payment Date), which amount shall be deposited promptly in Commissions Payments Fund;

(iv) On or before the fifteenth Business Day of each calendar month commencing on the fifteenth Business Day of the twelfth month prior to the next succeeding principal payment date, but not before making the required deposits in clauses (i) and (ii) above, an amount which equals one-twelfth (1/12) of the amount necessary to pay and for the purpose of paying, 100% of the principal amount of any Fixed Rate Bonds issued as Guaranteed Bonds maturing on the next succeeding maturity date (or, in the case of the period from the date of issuance of such Fixed Rate Bonds to the first date on which principal is due on such Fixed Rate Bonds, a monthly amount equal to 100% of the principal amount owed on such first principal maturity date divided by the number of months from the date of issuance of such Fixed Rate Bond to such first principal maturity date), which amount shall be deposited promptly in the Commissions Payments Fund.

In the event funds on deposit in the Interest Sub-Account or Principal Sub-Account for the Revenue Bonds (including the 2008 Bonds) are insufficient for any payment of Annual Debt Service, the Trustee shall promptly, after utilizing any available funds in the Residual Fund or the applicable Account of the Debt Service Reserve Fund, transfer to such Sub-Accounts from any balances in the Interest Sub-Account or Principal Sub-Account for the Guaranteed Bonds such amounts as are necessary to correct such deficiencies.

In the event of any failure by the Commission and the Treasurer of the Commonwealth to make any of the payments required under the Subordinate Indenture to be deposited in the Interest Sub-Account or Principal Sub-Account for the Guaranteed Bonds, the Trustee shall immediately send notice, by electronic format or otherwise, to PennDot, with a copy to the Commission, to make payments out of the Motor License Fund, to the extent funds are available, pursuant to Act 44 for payment to the Guaranteed Bonds Receipts Account. See "SECURITY FOR THE 2008 BONDS - Motor License Fund Guarantee".

### **Commission Payments Fund**

All Commission Payments will be deposited 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 Commission Payments Fund. The monies in the Commission Payments Fund are to be held by the Trustee in trust and applied in accordance with the Subordinate Indenture.

Except as otherwise provided in the Subordinate Indenture, transfers from the Commission Payments Fund shall be made to the following funds and in the following order of priority:

- (i) Rebate Fund;
- (i) Administrative Expenses Fund;
- (i) Revenue Bonds Account of the Debt Service Fund;

- (i) Guaranteed Bonds Account of the Debt Service Fund;
- (i) Debt Service Reserve Fund, if applicable;
- (i) Guarantee Repayment Fund; and
- (i) Residual Fund.

### **Administrative Expenses Fund**

Pursuant to the Subordinate Indenture, there is created the Administrative Expenses Fund. The Trustee shall deposit into the Administrative Expenses Fund from the Commission Payments Fund such amounts as are needed for the payment of Administrative Expenses. In the event of a deficiency in the Rebate Fund, arbitrage rebate, yield reduction or similar payments may be made from amounts in the Administrative Expenses Fund with respect to Subordinate Indenture Bonds. Funds on deposit in the Administrative Expenses Fund may also be used for the payment of annual trustee fees, facility fees, remarketing fees and initial swap payments incurred in connection with the issuance, and performance, of Subordinate Indenture Bonds from time to time.

### **Debt Service Fund**

Pursuant to the Subordinate Indenture, there is created a Debt Service Fund and within the Debt Service Fund there is established two separate accounts to be known as the "Revenue Bonds Account" and the "Guaranteed Bonds Account". Each such Account shall have an "Interest Sub-Account" and "Principal Sub-Account" for each Series or Sub-Series of tax exempt and taxable Subordinate Indenture Bonds issued pursuant to the applicable supplemental indenture to the Subordinate Indenture. There is also created under the Subordinate Indenture a Guaranteed Bonds Receipts Account. Any payments by the Commonwealth out of the Commonwealth's Motor License Fund pursuant to Act 44 with respect to the Guaranteed Bonds shall be deposited into the Guaranteed Bonds Receipts Account for payment by the Trustee of principal and interest on the Guaranteed Bonds. Under the terms of the Supplemental Subordinate Indenture No. 1, there are created a separate 2008A Account, and each appropriate subaccount thereof, of the Debt Service Fund for the deposit and disbursement of funds for debt service payments on the 2008 Bonds. The Trustee shall make deposits, on the dates required for such deposits, from the Commission Payments Fund into the Revenue Bonds Account and the Guaranteed Bonds Account of the Debt Service Fund of such required amounts to the appropriate sub-accounts.

The Trustee and the Commission may create such additional accounts and sub-accounts in the Debt Service Fund pursuant to a supplemental indenture to the Subordinate 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 Subordinate Indenture 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 Subordinate Indenture Bonds shall be used to repay the provider of the Credit Facility for such payments), and (b) an account into which payments by the Commission to any Parity Swap Counterparty are to be deposited and from which payments to such Parity Swap Counterparty are to be paid.

The moneys in the Interest and Principal Sub-Accounts shall be held by the Trustee in trust for the benefit of the applicable Series of Subordinate Indenture 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 applicable Series of Subordinate Indenture Bonds until paid out or transferred as hereinafter provided. 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 Subordinate Indenture 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 the applicable supplemental indenture to the Subordinate Indenture.

For any Debt Service Reserve Fund Bonds, 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 Debt Service Reserve Fund and transfer the same to the appropriate account of the Debt Service Fund.

For any Guaranteed Bonds, 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 or if the Trustee does not have sufficient moneys to make the required deposits under the Subordinate Indenture into the Guaranteed Bonds Account of the Debt Service Fund, the Trustee shall notify the Commonwealth through PennDot of such deficiency and request the payment of funds necessary to cure such deficiency only from funds available in the Motor License Fund. The Commonwealth has no obligation to appropriate any funds other than funds on deposit in the Motor License Fund to the payment of the Guaranteed Bonds. *See* "SECURITY FOR THE 2008 BONDS - Commission Payments."

### **Debt Service Reserve Fund**

A Debt Service Reserve Fund has been established under the Subordinate Indenture to provide additional security for Debt Service Reserve Fund Bonds. **The 2008 Bonds are Debt Service Reserve Fund Bonds for the purpose of the Subordinate Indenture and, accordingly, are secured by moneys on deposit in the 2008A Account, or the appropriate subaccount thereof, of the Debt Service Reserve Fund.** The 2008A Account, and each appropriate subaccount thereof, have been established as part of the Debt Service Reserve Fund. On the date of the issuance of the 2008 Bonds an amount shown above under "PLAN OF FINANCING" from proceeds of the 2008 Bonds will be deposited to the 2008A Account, or the appropriate subaccount thereof, of the Debt Service Reserve Fund. Such amount is sufficient to fulfill the Debt Service Reserve Fund Requirement of the Subordinate Indenture with respect to the 2008 Bonds and all outstanding Debt Service Reserve Fund Bonds. At this time, there are no other outstanding Debt Service Reserve Fund Bonds other than the 2008 Bonds under the Subordinate Indenture.

The Subordinate Indenture requires that the balance in the Debt Service Reserve Fund be maintained at the Debt Service Reserve Requirement, which is an amount equal to the lesser of (i) Maximum Annual Debt Service on account of all Debt Service Reserve Fund Bonds, (ii) ten percent (10%) of the aggregate Outstanding principal amount of all Debt Service Reserve Fund Bonds, or (iii) 125% of average Annual Debt Service for all Debt Service Reserve Fund Bonds for each Fiscal Year for the remaining life of such Bonds, provided in any case that such amount does not exceed what is permitted by the Code. Debt Service Reserve Fund Bonds include Long-Term Indebtedness specified by the Commission in the Subordinate Indenture and the applicable supplemental indenture to the Subordinate Indenture as being secured by the Debt Service Reserve Fund. *See* "APPENDIX C -- SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE INDENTURE – THE SUBORDINATE INDENTURE - Debt Service Reserve Fund" for information with respect to the Debt Service Reserve Fund under the Subordinate Indenture.

In each Fiscal Year, after first having made the deposits required to the Debt Service Fund, the Commission shall pay out of the General Reserve Fund into the Commission Payments Fund and the Trustee shall transfer from the Commission Payments 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 the applicable supplemental indenture to the Subordinate Indenture if an amount different from the Debt Service Reserve Requirement is required.

Subject to the preceding paragraph, 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 Subordinate Indenture for the benefit of all Debt Service Reserve Fund Bonds of the same Class.

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 Commission Payments 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 funds shall be allocated, subject to the provisions of the Subordinate Indenture, pro rata among such bonds.

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 such surety bond, an insurance policy, a letter of credit or similar financial instrument will not result in the rating on any outstanding Debt Service Reserve Fund Bonds being downgraded) (each, a "DSRF Security") payable to the Trustee 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 Subordinate Indenture 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.

## **Guarantee Repayment Fund**

Under the terms of the Subordinate Indenture, there is created a Guarantee Repayment Fund. Based on such time schedule as agreed by the Commission and PennDot and furnished to the Trustee, the Trustee shall deposit into the Guarantee Repayment Fund from the Commission Payments Fund and the Residual Fund such amounts as are necessary to repay, and the Trustee initiate such repayment from the Guarantee Repayment Fund, to the Commonwealth's Motor License Fund any debt service payments or portion of debt service payments with respect to any Guaranteed Bonds, which are made out of such Motor License Fund.

## **Residual Fund**

Under the terms of the Subordinate Indenture, there is created a Residual Fund. After making all payments required hereunder or under a supplemental indenture to the Subordinate Indenture, the Trustee shall at least annually deposit into the Residual Fund out of the Commission Payments Fund such amounts from the Commission Payments Fund as are in excess of current debt service and other required payments and deposits pursuant to the Subordinate Indenture.

Moneys in the Residual Fund may be expended by the Commission to restore deficiencies in any funds or accounts created under the Subordinate Indenture (including without limitation the Revenue Bonds Principal and Interest Sub-Accounts) and, absent any such deficiency, for any of the following purposes, with no one item having priority over any of the others:

- (i) To purchase or redeem Subordinate Indenture Bonds;
- (ii) To secure and pay the principal or redemption price of and interest on any Parity Obligations; or
- (iii) To further any corporate purpose.

The Trustee is authorized to apply monies on deposit in the Residual 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:

- (i) 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 Subordinate Indenture or to a fund or account held by the Commission and not subject to the Subordinate Indenture, the name of such fund or account,
- (ii) the amount to be paid, and
- (iii) the purpose for which the payment is to be made.

Pursuant to the written request of the Commission, the Trustee shall transfer to the General Reserve Fund of the Senior Indenture any balance in the Residual Fund not required to restore any deficiency in a fund or account established hereunder.

## **BOND INSURANCE**

The following information is not complete and reference is made to Appendix F for a specimen of the financial guaranty insurance policy (the "Policy") of Assured Guaranty Corp. ("Assured Guaranty", the "Bond Insurer" or the "Insurer").

### **The Insurance Policy**

Assured Guaranty has made a commitment to issue the Policy relating to the 2008 Bonds, effective as of the date of issuance of such 2008 Bonds. Under the terms of the Policy, Assured Guaranty will unconditionally and irrevocably guarantee to pay that portion of principal of and interest on the 2008 Bonds that becomes Due for Payment but shall be unpaid by reason of Nonpayment (the "Insured Payments"). Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. The Policy is non-cancelable for any reason, including without limitation the non-payment of premium.

"Due for Payment" means, when referring to the principal of the 2008 Bonds, the stated maturity date thereof, or the date on which such 2008 Bonds shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and, when referring to interest on such 2008 Bonds, means the stated dates for payment of interest.

"Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on the 2008 Bonds. It is further understood that the term Nonpayment in respect of a 2008 Bond also includes any amount previously distributed to the Holder (as such term is defined in the Policy) of such 2008 Bond in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. Nonpayment does not include nonpayment of principal or interest caused by the failure of the Trustee or the Paying Agent to pay such amount when due and payable.

Assured Guaranty will pay each portion of an Insured Payment that is Due for Payment and unpaid by reason of Nonpayment, on the later to occur of (i) the date such principal or interest becomes Due for Payment, or (ii) the business day next following the day on which Assured Guaranty shall have received a completed notice of Nonpayment therefor in accordance with the terms of the Policy.

Assured Guaranty shall be fully subrogated to the rights of the Holders of the 2008 Bonds to receive payments in respect of the Insured Payments to the extent of any payment by Assured Guaranty under the Policy.

The Policy is not covered by any insurance or guaranty fund established under New York, California, Connecticut or Florida insurance law.

## **The Insurer**

Assured Guaranty Corp. (“Assured Guaranty”) is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. Assured Guaranty commenced operations in 1988. Assured Guaranty is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO.” AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of Assured Guaranty or any claims under any insurance policy issued by Assured Guaranty.

Assured Guaranty is subject to insurance laws and regulations in Maryland and in New York (and in other jurisdictions in which it is licensed) that, among other things, (i) limit Assured Guaranty’s business to financial guaranty insurance and related lines, (ii) prescribe minimum solvency requirements, including capital and surplus requirements, (iii) limit classes and concentrations of investments, (iv) regulate the amount of both the aggregate and individual risks that may be insured, (v) limit the payment of dividends by Assured Guaranty, (vi) require the maintenance of contingency reserves, and (vii) govern changes in control and transactions among affiliates. Certain state laws to which Assured Guaranty is subject also require the approval of policy rates and forms.

Assured Guaranty’s financial strength is rated “AAA” by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“S&P”), “AAA” by Fitch, Inc. (“Fitch”) and “Aaa” by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

## **Capitalization of Assured Guaranty Corp.**

As of December 31, 2007, Assured Guaranty had total admitted assets of \$1,361,538,502 (unaudited), total liabilities of \$961,967,238 (unaudited), total surplus of \$399,571,264 (unaudited) and total statutory capital (surplus plus contingency reserves) of \$982,045,695 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2006, Assured Guaranty had total admitted assets of \$1,248,270,663 (audited), total liabilities of \$962,316,898 (audited), total surplus of \$285,953,765 (audited) and total statutory capital (surplus plus contingency reserves) of \$916,827,559 (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. The Maryland Insurance Administration recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Maryland Insurance Code, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the Maryland Insurance Administration to financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) in making such determinations.

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

The portions of the following documents relating to Assured Guaranty are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- The Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2007 (which was filed by AGL with the Securities and Exchange Commission (the "SEC") on February 29, 2008); and
- The Current Reports on Form 8-K filed by AGL with the SEC, as they relate to Assured Guaranty.

All consolidated financial statements of Assured Guaranty and all other information relating to Assured Guaranty included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading "Bond Insurance-The Insurer" shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of Assured Guaranty incorporated by reference herein and of the statutory financial statements filed by Assured Guaranty with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at 1325 Avenue of the Americas, New York, New York 10019 or by calling Assured Guaranty at (212) 974-0100. In addition, the information regarding Assured Guaranty that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC is available to the public over the Internet at the SEC's web site at <http://www.sec.gov> and at AGL's web site at <http://www.assuredguaranty.com>, from the SEC's Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Assured Guaranty makes no representation regarding the 2008 Bonds or the advisability of investing in the 2008 Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "Bond Insurance".

## **AUDITED FINANCIAL STATEMENTS**

The financial statements of the Commission for the years ended May 31, 2007 and May 31, 2006 are set forth in "APPENDIX B - AUDITED FINANCIAL STATEMENTS: 2007 and 2006" 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 2008 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, 2008, annual financial information, consisting of financial and operating data of the type set forth in this Official Statement in Tables I, II and III of "APPENDIX A — THE PENNSYLVANIA TURNPIKE" and in "APPENDIX B - AUDITED FINANCIAL STATEMENTS: 2007 AND 2006," as well as a summary of any material legislative or regulatory developments affecting Act 44 or the tolling of Interstate 80. 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 2008 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 any of the 2008A-1 Bonds; (vii) modifications to rights of holders of the 2008 Bonds; (viii) 2008 Bond calls; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the 2008 Bonds; and (xi) rating changes. The foregoing events are quoted from Rule 15c2-12.

In addition, the Commission shall give notice in a timely manner to the MSRB and a SID, if any, of any failure to provide such annual financial information on or before the date specified for such filing. Also, any filing to be made to a Repository pursuant to the requirements of the Disclosure Agreement may be made solely by transmitting such filing to Digital Assurance Certification LLC ("DAC") unless the United States Securities and Exchange Commission has withdrawn its no action letter to DAC dated September 21, 2001.

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 2008 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 2008 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 2008 Bonds.

The Disclosure Undertaking will recite that it is entered into for the benefit of the registered owners from time to time of the 2008 Bonds. For the purposes of the Disclosure Undertaking, for so long as the 2008 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 2008 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 2008 Bonds or the Subordinate 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 2008 Bonds, (2) upon repeal or rescission of Section (b)(5) of Rule 15c2-12, or (3) upon a final determination that Section (b)(5) of Rule 15c2-12 is invalid or unenforceable. A copy of the Disclosure Undertaking is on file at the principal office of the Commission.

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

### **RELATIONSHIPS OF CERTAIN PARTIES**

Dilworth Paxson LLP, Bond Counsel, provides legal services to the Commission in various matters from time to time.

### **UNDERWRITING**

The 2008 Bonds are being purchased by the Underwriters listed on the cover page (the "Underwriters") for whom Citigroup Global Markets Inc. is acting as the Representative. The Underwriters have agreed to purchase the 2008 Bonds at an underwriting discount of \$984,532.76 for the 2008A-1 Bonds and \$423,631.98 for the 2008A-2 Bonds.

The Underwriters will be obligated to purchase all of the 2008 Bonds if any of such 2008 Bonds are purchased. The 2008 Bonds may be offered and sold to certain dealers (including the Underwriters and other dealers depositing such 2008 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**

Moody's Investors Service and Standard & Poor's Rating Group have assigned long-term municipal bond ratings of "Aaa" and "AAA", respectively, to the 2008 Bonds with the understanding that upon delivery of the 2008 Bonds, a policy insuring the payment when due of the principal of and interest on the 2008 Bonds will be issued by the Bond Insurer.

The Commission has received the underlying long-term ratings of "A2" and "A-", respectively, from Moody's Investors Service and Standard & Poor's Rating Group for the 2008 Bonds.

Moody's Investors Service affirmed their underlying long-term rating for the Commission's outstanding Senior Revenue Bonds of "Aa3". Both Standard & Poor's Rating Group and FitchRatings

have lowered their respective underlying long-term ratings for the Commission's outstanding Senior Revenue Bonds from "AA-" to "A+".

An explanation of the significance of each of such ratings may be obtained from the rating agency furnishing the same at the following addresses: Standard & Poor's Rating Group, 25 Broadway, New York, NY 10004, Moody's Investors Service, 99 Church Street, New York, NY 10007, and FitchRatings, One State Street Plaza, New York, NY 10004.

There is no assurance that such ratings will continue for any given period of time or that they may not be lowered or withdrawn entirely by the rating agencies, or any of them, if, in their or its judgment, circumstances so warrant. The Commission undertakes no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal of the ratings or other actions by a rating agency may have an adverse effect on the market price of the 2008 Bonds.

Each of Moody's, Fitch Ratings and Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. (collectively referred to hereinafter as the "Rating Agencies") has recently released statements on the potential effects of downturns in the market for structured finance instruments, including collateralized debt obligations and residential mortgage backed securities, on the claims-paying ability of the bond insurance companies, including the Bond Insurer. See "BOND INSURANCE - Incorporation of Certain Documents by Reference." In various releases, the Rating Agencies have each outlined the processes that they intend to follow in evaluating the effect of this risk on their respective ratings of financial guarantors. For some financial guarantors, the result of such evaluations could be a ratings affirmation, a change in rating outlook, a review for downgrade, or a downgrade. Potential investors are directed to the Rating Agencies for additional information on their respective evaluations of the financial guaranty industry and individual financial guarantors, including the Bond Insurer.

## **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 2008 Bonds, or in any way contesting or affecting the validity of the 2008 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 2008 Bonds, the existence or powers of the Commission or the construction of the Commission's Capital Improvement Program.

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

There are currently approximately 99 open claims for personal injury and/or property damage pending against the Commission, none of which individually or in the aggregate are deemed to expose the Commission to a material risk of loss.

## **LEGAL MATTERS**

Certain legal matters will be passed upon by Dilworth Paxson LLP, Philadelphia, Pennsylvania, Bond Counsel. A copy of the form of opinion of Bond Counsel which will be delivered with the 2008 Bonds is set forth in "APPENDIX E - FORM OF OPINION OF BOND COUNSEL." Certain other legal matters will be passed upon for the Underwriters by their Counsel, Tucker Arensberg, P.C., Pittsburgh, Pennsylvania, and for the Commission by its Chief Counsel, Doreen A. McCall, Esquire.



## TAX MATTERS

### 2008A-1 Bonds

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the 2008A-1 Bonds (the "Tax-Exempt 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 federal alternative minimum tax imposed on individuals and corporations. However, interest on the Tax-Exempt Bonds paid or accrued during any period any Tax-Exempt Bonds are held by a corporation (other than an S corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) 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 Tax-Exempt Bonds may be included in effectively converted earnings and profits for the purpose of computing the branch profits tax imposed on certain foreign corporations doing business in the United States, 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 Tax-Exempt 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 receipts of such S corporations is passive investment income.

Ownership of the Tax-Exempt 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, individuals who otherwise qualify for the earned income credit 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 Tax-Exempt Bonds. The Code denies the earned income credit to an individual who is otherwise eligible if the aggregate amount of disqualified income of the taxpayer for the taxable year exceeds certain limits set forth in Sections 32(i) and (j) of the Code. Interest on the Tax-Exempt Bonds will constitute disqualified income for this purpose. The Code also provides that for years beginning after December 31, 2010, the earned income credit is phased out if the modified adjusted gross income of the taxpayer exceeds certain amounts. Interest on the Tax-Exempt Bonds will be included in determining the modified gross income of the taxpayer. Bond Counsel expresses no opinion as to any such consequences, and prospective purchasers of the Tax-Exempt Bonds who may be subject to such collateral consequences should consult their tax advisors.

The Commission will make certain representations and undertake certain agreements and covenants in the Subordinate Indenture, and in a Tax Regulatory Agreement to be delivered concurrently with the original issuance of the Tax-Exempt Bonds, designed to ensure compliance with the applicable provisions of the Code. The inaccuracy of these representations or the failure on the part of the Commission to comply with such covenants and agreements could result in the interest on the Tax-Exempt Bonds being included in the gross income of the holder for federal income tax purposes, in certain cases retroactive to the date of original issue of the Tax-Exempt Bonds.

The opinion of Bond Counsel assumes the accuracy of these representations and the future compliance by the Commission with its covenants and agreements. Moreover, Bond Counsel has not undertaken to evaluate, determine or inform any person, including any holder of the Tax-Exempt Bonds, whether any actions taken or not taken, events occurring or not occurring, or other matters that might come to attention of Bond Counsel, would adversely affect the value of, or tax status of the interest on, the Tax-Exempt Bonds.

The opinion of Bond Counsel represents their legal judgment based upon their review of existing statutes, regulations, published rulings and court decisions and the facts that it deems relevant to render such opinions. However, such opinion is not a guarantee of any result and is not binding on the Internal Revenue Service or the courts. Neither the Underwriters nor Bond Counsel are obligated to defend the tax-exempt status of the Tax-Exempt Bonds. None of the Commission, the Underwriters or Bond Counsel is responsible to pay or reimburse the costs of any holder or beneficial owner with respect to any audit or litigation relating to the Tax-Exempt Bonds.

The Internal Revenue Service has an ongoing program of examining tax-exempt obligations to determine whether, in the view of the IRS, interest on such obligations is properly excluded from gross income for federal income tax purposes, and it is possible that the Tax-Exempt Bonds may be selected for examination under such program. Under current procedures, parties other than the Commission, and their appointed counsel, including the holders of the Tax-Exempt Bonds, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Commission may legitimately disagree, may not be practicable. Any action of the IRS, including but not limited to, selection of the Tax-Exempt Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues, may affect the market price for, the liquidity of or the marketability of, the Tax-Exempt Bonds, and may cause the Commission or the holders of the Tax-Exempt Bonds to incur significant expense.

There can be no assurance that currently existing or future legislative proposals by the United States Congress limiting or further qualifying the excludability of interest on tax-exempt bonds from gross income for federal tax purposes, or changes in federal tax policy generally, will not adversely affect the market for the Tax-Exempt Bonds.

*Premium Bonds.* Tax-Exempt Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity ("Premium Bonds"), will be treated as having amortizable premium. No deduction is allowable for the amortizable premium in the case of bonds, like the Premium 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 the amount of tax exempt interest received will be reduced by the amount of amortizable premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable premium in their particular circumstances.

*Original Issue Discount.* The initial public offering of certain Tax-Exempt Bonds may be less than the stated redemption price thereof at maturity. The difference between the initial public offering price for any such Tax-Exempt Bond and the stated redemption price at maturity is "original issue discount." For federal income tax purposes, original issue discount on a Tax-Exempt Bond accrues to original holders of the Tax-Exempt Bond over the period of its maturity based on the constant yield method compounded annually as interest with the same tax exemption and alternative minimum tax status as regular interest. The accrual of original issue discount increases the holder's tax basis in the Tax-Exempt Bond for determining taxable gain or loss on the maturity, redemption, prior sale or other disposition of the Tax-Exempt Bond. Purchasers of the Tax-Exempt Bonds should consult their tax advisors for an explanation of the accrual rules for original issue discount and any other federal, state or local tax consequences of the purchase of Tax-Exempt Bonds with original issue discount.

## 2008A-2 Bonds

The following is a summary of certain anticipated federal income tax consequences of the purchase, ownership and disposition of the 2008A-2 Bonds. The summary is based upon the provisions of the Code, the regulations promulgated thereunder and the judicial and administrative rulings and decisions now in effect, all of which are subject to change or possible differing interpretations. This summary does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances, nor certain types of investors subject to special treatment under the federal income tax laws. This summary focuses primarily on investors who will hold the 2008A-2 Bonds as "capital assets" (generally, property held for investment within the meaning of Code Section 1221), but much of the discussion is applicable to other investors. Potential purchasers of the 2008A-2 Bonds should consult their own tax advisors in determining the federal, state or local tax consequences to them of the purchase, holding and disposition of the 2008A-2 Bonds.

*Taxability of Stated Interest and Principal.* In general, interest payable to 2008A-2 Bondholders who are not exempt from federal income tax will be treated as ordinary income in the year paid, in the case of cash basis taxpayers, or the year accrued, in the case of accrual basis taxpayers. Principal payments on the 2008A-2 Bonds, other than those attributable to any market discount, will be treated as a return of capital.

*Acquisition Premium.* The purchaser of a 2008A-2 Bond will be treated as having amortizable bond premium to the extent (if any) by which the purchaser's initial basis in the 2008A-2 Bond exceeds the outstanding principal amount of the 2008A-2 Bond. Provided that the purchaser makes an election under Section 171(c) of the Code (or made such an election after October 22, 1986), the amount of any amortizable bond premium may be amortized over the term of the 2008A-2 Bond and treated as a reduction of the 2008A-2 Bondholder's taxable interest income from the 2008A-2 Bond each year, in which case the Bondholder's basis in the Bonds will be reduced by the amortized amount.

The election under Section 171(c) of the Code to amortize bond premium applies to all taxable debt obligations then owned and thereafter acquired by a 2008A-2 Bondholder, and may be revoked only with the consent of the Internal Revenue Service. OWNERS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE ADVISABILITY OF MAKING AN ELECTION TO DEDUCT AMORTIZABLE BOND PREMIUM AND THE APPROPRIATE METHOD OF MAKING SUCH AN ELECTION.

*Market Discount.* A holder who purchases a 2008A-2 Bond from a prior holder for a price below the adjusted issue price of the 2008A-2 Bond (which generally will equal the remaining principal amount of such 2008A-2 Bond) will, subject to certain *de minimis* rules, be treated as having purchased the 2008A-2 Bond for a market discount. The amount of any market discount will be deemed to accrue over the remaining maturity of the 2008A-2 Bond in accordance with the constant yield to maturity method of accounting, and will have to be taken into account by the 2008A-2 Bondholder as ordinary income for federal income tax purposes. Accrued market discount generally only has to be taken into account as ordinary income as principal payments are received, or upon the recognition of gain from the disposition of the 2008A-2 Bond, provided that the holder may elect to include market discount in income as it accrues.

A holder of a 2008A-2 Bond acquired at a market discount may also be required to defer, until the maturity date of such 2008A-2 Bond or its earlier disposition in a taxable disposition, the deduction of a portion of interest that the holder paid or accrued on indebtedness incurred or maintained to purchase or carry the 2008A-2 Bonds. This deferral rule does not apply if the 2008A-2 Bondholder elects to include the market discount in income for the tax years to which it relates. Prospective

purchasers who intend to purchase 2008A-2 Bonds from an existing holder at a market discount should consult their own tax advisors regarding the inclusion of market discount in taxable income as ordinary income, the election to include market discount in income as it accrues, and the possible deferral of a portion of the interest deductions attributable to indebtedness incurred or maintained to purchase or carry 2008A-2 Bonds purchased at a market discount.

*Sale or Redemption of the 2008A-2 Bonds.* A 2008A-2 Bondholder's tax basis for a 2008A-2 Bond is the price such holder pays for the 2008A-2 Bond, reduced by (a) payments received other than "qualified periodic interest" and (b) amortized bond premium. Gain or loss recognized on a sale, exchange or redemption of a 2008A-2 Bond, measured by the difference between the amount realized and the 2008A-2 Bond's basis as so adjusted, will generally give rise to capital gain or loss if the 2008A-2 Bond is held as a capital asset. In the case of a subsequent purchaser, a portion of any gain will generally be treated as ordinary income to the extent of any market discount accrued to the date of disposition which was not previously reported as ordinary income.

*Backup Withholding.* A 2008A-2 Bondholder may, under certain circumstances, be subject to "backup withholding" at a specified rate prescribed in the Code with respect to interest on the 2008A-2 Bonds. This withholding generally applies if the holder of a 2008A-2 Bond (a) fails to furnish the Trustee with its taxpayer identification number ("TIN"); (b) furnishes the Trustee an incorrect TIN; (c) fails to report properly interest, dividends or other "reportable payments" as defined in the Code, or (d) under certain circumstances, fails to provide the Trustee or its securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is his correct number and that the holder is not subject to backup withholding. Backup withholding will not apply, however, with respect to payments made to certain 2008A-2 Bondholders, including payment to certain exempt recipients (such as certain exempt organizations) and to certain Nonresidents (as defined below).

The Trustee will report to the 2008A-2 Bondholders and to the IRS for each calendar year the amount of any "reportable payments" during such year and the amount of tax withheld, if any, with respect to payments on the 2008A-2 Bonds.

*Foreign Bondholders.* Under the Code, interest with respect to 2008A-2 Bonds held by nonresident alien individuals, foreign corporations or other non-United States persons ("Nonresidents") generally will not be subject to the 30 percent United States withholding tax if the Trustee (or other person who would otherwise be required to withhold tax from such payments) is provided with an appropriate statement that the beneficial owner of a 2008A-2 Bond is a Nonresident. The withholding tax, if applicable, may be reduced or eliminated by an applicable tax treaty. However, interest that is effectively connected with a United States business conducted by a Nonresident 2008A-2 Bondholder will generally be subject to the regular United States income tax.

**INVESTORS WHO ARE NONRESIDENTS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE SPECIFIC TAX CONSEQUENCES TO THEM OF OWNING 2008A-2 BONDS.**

THE FOREGOING SUMMARY AS TO 2008 BONDS IS NOT INTENDED AS AN EXHAUSTIVE RECITAL OF THE POTENTIAL TAX CONSEQUENCES OF HOLDING THE 2008 BONDS. PROSPECTIVE PURCHASERS OF THE 2008 BONDS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF THE OWNERSHIP OF THE 2008 BONDS. BOND COUNSEL WILL NOT RENDER ANY OPINION WITH RESPECT TO ANY FEDERAL TAX CONSEQUENCES OF OWNERSHIP OF THE 2008A-2 BONDS AND WILL NOT RENDER ANY OPINION AS TO STATE OR LOCAL TAX CONSEQUENCES EXCEPT FOR THE MATTERS SET FORTH UNDER THE CAPTION "STATE TAX MATTERS" BELOW.

## **State Tax Matters**

Under the laws of the Commonwealth of Pennsylvania (the "Commonwealth") as presently enacted and construed, the 2008 Bonds are exempt from personal property taxes in the Commonwealth and the interest on the 2008 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 Commission, such as the 2008 Bonds, will be subject to Pennsylvania taxes within the Commonwealth.

The 2008 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.

On May 21, 2007, the United States Supreme Court agreed to review the decision of a Kentucky appellate court in the Case of *Davis v. Kentucky Dept. of Revenue of the Finance and Administration Cabinet*, 197 S.W. 3d 557 (2006). The Kentucky court held that under the Constitution of the United States, a state may not exempt interest on bonds issued by that state or political subdivisions thereof from state and local taxes unless the state also provides such exemption to interest on bonds issued by other states and political subdivisions. Pennsylvania law is similar to the Kentucky law in question, in that it exempts from state and local taxes (as described above) interest on bonds issued by the state and its political subdivisions, but not interest on bonds issued by other states or political subdivisions. Oral argument in this case was held before the Supreme Court on November 5, 2007. The outcome of such review, and its impact, if any, on the exemption of the 2008 Bonds and interest thereon from state and local taxes in the Commonwealth, or on the market value of the 2008 Bonds, cannot be predicted.

PROSPECTIVE PURCHASERS OF THE 2008 BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE FEDERAL, STATE AND LOCAL INCOME TAX CONSEQUENCES OF OWNERSHIP OF THE 2008 BONDS AND ANY CHANGES IN THE STATUS OF PENDING OR PROPOSED TAX LEGISLATION.

## **ERISA CONSIDERATIONS**

The 2008 Bonds may be purchased by an employee benefit plan (whether or not such plan is subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA")) or by an individual retirement account described in Section 408(a) of the Internal Revenue Code of 1986, as amended (the "Code") (both referred to hereinafter as "Plans") subject to the following limitations. Before acquiring any 2008 Bonds, a fiduciary of a Plan must determine that the acquisition of such 2008 Bonds is consistent with its fiduciary duties under ERISA and the terms of the applicable Plan documents and does not result in a nonexempt prohibited transaction as defined in Section 406 of ERISA or Section 4975 of the Code ("Prohibited Transaction"). Employee benefit plans which are governmental plans (as defined in Section 3(32) of ERISA) and certain church plans (as defined in Section 3(33) of ERISA) are not subject to the fiduciary responsibility or prohibited transaction provisions of ERISA or the Code, but may be subject to state laws regulating fiduciary conduct and to Section 503 of the Code. Accordingly, before acquiring any 2008 Bonds, a fiduciary or other person authorizing the purchase by such a government or church plan must determine that the acquisition of 2008 Bonds is consistent with all applicable law, including any fiduciary duties under applicable state law.

By virtue of activities unrelated to the issuance and initial purchase of the 2008 Bonds, under certain circumstances, the Commission, the Underwriters and their affiliates may be considered to be, with respect to a Plan, "parties in interest," within the meaning of Section 3(14) of ERISA, or

"disqualified persons," within the meaning of Section 4975(e)(2) of the Code (collectively, "Parties in Interest"). Thus, an acquisition of 2008 Bonds by such a Plan may constitute a Prohibited Transaction unless the acquisition is made pursuant to an applicable statutory, regulatory or administrative exemption. Under regulations of the Department of Labor (the "DOL"), set forth in 29 C.F.R. 2510.3-101 (the "Plan Asset Regulations"), if a Series of 2008 Bonds is treated as having substantial equity features under the Plan Asset Regulations, the purchaser of a 2008 Bond of such Series could be treated as having acquired a direct interest in the Trust Estate securing the 2008 Bonds. In that event, the purchase, holding, or resale of such 2008 Bonds could result in a Prohibited Transaction. Pursuant to the Plan Asset Regulations, it appears that all 2008 Bonds will be treated as debt obligations without substantial equity features for purposes of the Plan Asset Regulations. Accordingly, a Plan that acquires a 2008 Bond should not be treated as having acquired a direct interest in the assets of the Trust Estate. However, there can be no complete assurance that all Series of 2008 Bonds will be treated as debt obligations without substantial equity features for purposes of the Plan Asset Regulations. Therefore, a Plan fiduciary should consult its counsel prior to making such purchase.

Regardless of whether the 2008 Bonds are treated as debt or equity for purposes of the Plan Asset Regulations, the acquisition or holding of 2008 Bonds by or on behalf of a Plan could still be considered to give rise to a Prohibited Transaction if the Commission or its affiliates is or becomes a Party in Interest with respect to such Plan, or in the event that a subsequent transfer of a 2008 Bond is between a Plan and a Party in Interest with respect to such Plan. However, the DOL has issued a number of administrative exemptions that may exempt a Plan's purchase and holding of the 2008 Bonds or an interest in the 2008 Bonds where it might otherwise be a Prohibited Transaction. If a purchase of the 2008 Bonds would constitute a Prohibited Transaction, a Plan may not purchase 2008 Bonds unless one of the following Prohibited Transaction class exemptions, as each may be amended (each a "PTCE") applies and the conditions thereof are satisfied: PTCE 96-23 (relating to transactions effectuated at the sole discretion of an "in house asset manager" (an "INHAM")); PTCE 95-60 (relating to transactions effectuated on behalf of an insurance company general account); PTCE 91-38 (relating to transactions involving bank collective investment funds); PTCE 90-1 (relating to transactions involving insurance company pooled separate accounts); or PTCE 84-14 (relating to transactions effectuated at the sole discretion of a "qualified professional asset manager" (a "QPAM")). The availability of each of these PTCEs is subject to a number of important conditions which the Plan's fiduciary must consider in determining whether such exemptions apply. These administrative exemptions will not apply if the QPAM, INHAM, insurance company or bank directing the investment is the Commission, the Underwriters or any of their affiliates. Therefore, a Plan fiduciary considering an investment in the 2008 Bonds should consult with its counsel prior to making such purchase.

EACH INVESTOR IN THE 2008 BONDS OR IN AN INTEREST IN THE 2008 BONDS WILL BE DEEMED TO HAVE REPRESENTED THAT IT EITHER (I) IS NOT A PLAN OR IS NOT USING THE ASSETS OF A PLAN, (II) IS A PLAN OR IS INVESTING THE ASSETS OF A PLAN WITH RESPECT TO WHICH NEITHER THE COMMISSION, THE UNDERWRITERS NOR ANY OF THEIR AFFILIATES IS A PARTY IN INTEREST, (III) IS A PLAN OR IS INVESTING THE ASSETS OF, OR ACTING ON BEHALF OF, A PLAN, AND ITS INVESTMENT IN THE 2008 BONDS OR AN INTEREST IN THE 2008 BONDS IS ELIGIBLE FOR THE EXEMPTIVE RELIEF AVAILABLE UNDER PTCE 96-23, 9560, 91-38, 90-1, OR 84-14, AS EACH PTCE MAY BE AMENDED OR (IV) IS A GOVERNMENTAL PLAN OR CHURCH PLAN.

#### **FINANCIAL ADVISOR**

The Commission has retained Hopkins & Company, Philadelphia, Pennsylvania, as Financial Advisor with respect to the authorization and issuance of the 2008 Bonds. The Financial Advisor is not obligated to undertake or assume responsibility for, nor has it undertaken or assumed responsibility for,

an independent verification of the accuracy, completeness or fairness of the information contained in this Official Statement. Hopkins & Company is an independent advisory firm and is not engaged in the business of underwriting, holding or distributing municipal or other public securities.

### **TRUSTEE AND PAYING AGENT**

The Commission has appointed Commerce Bank, National Association, Philadelphia, Pennsylvania, as the Trustee and Paying Agent under the Subordinate Indenture. The obligations and duties of the Trustee are as described in the Subordinate Indenture. The Trustee has not evaluated the risks, benefits or propriety of any investment in the 2008 Bonds, and makes no representation, and has reached no conclusions, regarding the validity of the 2008 Bonds, the security therefor, the adequacy of the provisions for payment thereof or the tax-exempt status, as applicable, of the interest on the 2008 Bonds. The Trustee has relied upon the opinion of Bond Counsel for the validity of the 2008 Bonds and tax-exempt status, as applicable, of the interest on the 2008 Bonds as well as other matters set out in that opinion. Furthermore, the Trustee has no oversight responsibility, and is not accountable, for the use or application by the Commission of any of the 2008 Bonds authenticated or delivered pursuant to the Subordinate Indenture or for the use or application of the proceeds of such 2008 Bonds by the Commission.

Under the terms of the Subordinate Indenture, the Trustee shall not be responsible for any loss or damage resulting from any action or inaction taken in good faith in reliance upon an opinion of counsel and the Trustee is liable only for those damages caused by its gross negligence or willful misconduct. Under the Subordinate Indenture, the Trustee is not required to take notice, and is not deemed to have notice, of any default under the Subordinate Indenture, unless the Trustee has been specifically notified in writing of such default by the owners of at least 10% in aggregate principal amount of the Outstanding 2008 Bonds affected by such default. All notices or other instruments required by the Subordinate Indenture to be delivered to the Trustee must be delivered at the corporate trust office of the Trustee. In the absence of any such notice, the Trustee may conclusively assume no Event of Default (as defined in the Subordinate Indenture) exists, except as expressly stated in the Subordinate Indenture. The summary of the Trustee's rights, duties, obligations and immunities is not intended to be a complete summary and reference must be made to the Subordinate Indenture for a complete statement of the Trustee's rights, duties, obligations and immunities.

### **MISCELLANEOUS**

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

The references herein to the Enabling Acts, the 2008 Bonds, the Subordinate Indenture, Supplemental Subordinate Indenture No. 1, the Financial Guaranty Insurance Policy and the Continuing Disclosure Undertaking, the Senior Indenture and the Supplemental Indenture No. 11 to the Senior Indenture 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 2008 Bonds is to be construed as a contract with the holders of the 2008 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.

The execution and delivery of this Official Statement by its Chairman have been duly authorized by the Commission.

**PENNSYLVANIA TURNPIKE COMMISSION**

By: /s/ Mitchell Rubin  
*Chairman*



**APPENDIX A**

**THE PENNSYLVANIA TURNPIKE**

**THE COMMISSION**

**General**

The Commission is an instrumentality of the Commonwealth existing pursuant to an Act of the General Assembly of Pennsylvania approved July 18, 2007, P. L. 169, No. 44 ("Act 44") and various Acts of the General Assembly approved on several dates, including the Act of May 21, 1937, P. L. 774, Act 211, the Act of May 24, 1945, P. L. 972; the Act of February 26, 1947, P. L. 17; the Act of May 23, 1951, P. L. 335; the Act of August 14, 1951, P. L. 1232; and the Act of September 30, 1985, P. L. 240, No. 61 ("Act 61"), (collectively, the "Enabling Acts"). Pursuant to the Enabling Acts, the Commission has the power to construct, operate and maintain the System and to enter into a lease for Interstate 80 with the Department of Transportation of the Commonwealth of Pennsylvania ("PennDot"). Its composition, powers, duties, functions, duration and all other attributes are derived from the Enabling Acts as amended and supplemented by subsequent legislation. The Enabling Acts may be modified, suspended, extended or terminated at any time by further legislation.

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

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

<b><u>Name</u></b>	<b><u>Position</u></b>	<b><u>Expiration of Term*</u></b>
Mitchell Rubin	Chairman	June 30, 2010
Timothy J. Carson	Vice Chairman	February 8, 2009
J. William Lincoln	Secretary/Treasurer	May 18, 2008
Pasquale T. Deon, Sr.	Commissioner	June 30, 2010
Allen D. Biehler	Commissioner	Ex-Officio

Act 44 extensively revised and modified earlier legislation, added new authorities and responsibilities and required adoption of a code of conduct for executive-level employees, as well as members of the Commission. The Commission, in consultation with PennDot, is authorized by Act 44 to apply to the U.S. Department of Transportation to convert Interstate 80 to a toll road, as hereinafter described. Such an application was filed jointly by the Commission and PennDot on October 13, 2007, and is still pending, see "THE PENNSYLVANIA TURNPIKE - General" for further description of the application process.

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

## **Executive Personnel**

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

George M. Hatalowich was named the Chief Operating Officer in February 2007. Prior to that time, he was Contracts Administration Manager from 2003 to 2007, Engineering Contracts Supervisor and Agreement Supervisor from 1993 to 2003, and Bridge Design Engineer from 1990 to 1993.

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.

Frank J. Kempf, Jr. was named Chief Engineer in July 2007. Prior to that time, he held positions of Assistant Chief Engineer- Design and Chief Bridge Engineer with the Turnpike Commission. Before joining the Commission in 1986, he worked as a Bridge Design Engineer for a Consulting Engineering firm and with PENNDOT.

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

Nikolaus H. Grieshaber is the Director of Treasury Management and has been with the Commission since 2000. Prior to joining the Commission he was a finance manager and portfolio manager for ADP Capital Management, assistant treasurer for BTR Dunlop Finance, cash manager for Silo Inc. and investment analyst for American Life Insurance Company.

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\* Or until their successors are appointed and qualified.

## **THE PENNSYLVANIA TURNPIKE**

### **General**

The present Pennsylvania Turnpike System is composed of a 359 mile Turnpike Mainline traversing the southern portion of Pennsylvania from east to west and a 110 mile north-south section identified as the Northeast Extension. A north-south connection, known as the Beaver Valley Expressway, is approximately 16 miles in length and intersects the Turnpike Mainline in the southwestern portion of the Commonwealth. The Amos K. Hutchinson Bypass is approximately 13 miles in length and adjoins the Turnpike Mainline near the New Stanton Interchange. In addition, a 23-mile section of the Mon/Fayette Project and an eight mile section from the Pennsylvania/West Virginia border to Fairchance, which is located just south of Uniontown, are open as part of the Pennsylvania Turnpike System. When completed, the Mon/Fayette Expressway will extend approximately 65 miles from Interstate Route 68 in West Virginia to Interstate Route 376 near Pittsburgh. In 2006, the six mile Southern Beltway project from PA 60 to US 22 was opened to traffic to bring the system mileage to 535 miles.

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

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

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

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

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

Interstate 80 currently is part of the National Interstate Highway System, traversing northern Pennsylvania for approximately 311 miles from the Delaware Water Gap Bridge over the Delaware River to the Ohio-Pennsylvania state line. Interstate 80, including the portion located in Pennsylvania, is the second longest Interstate Highway in the United States, connecting downtown San Francisco, California with Teaneck, New Jersey. Pursuant to Act 44, the Commission, in consultation with PennDot, is authorized to apply to the U.S. Department of Transportation to convert Interstate 80 to a toll road under the Interstate System Reconstruction and Rehabilitation Pilot Program (the "Pilot Program"), which application the Commission and PennDot jointly filed on October 13, 2007. On October 15, 2007, Governor Rendell sent a letter supporting the application to United States Department of Transportation Secretary Mary Peters. The FHWA responded to the application with a request for additional information on December 12, 2007. Among FHWA's requests are a clearer identification of the rehabilitation, reconstruction and improvement projects currently being planned for Interstate 80 by the Commission after the Conversion Date, and further information of PennDot's historic funding strategy for Interstate 80. The Commission and PennDot jointly acknowledged this request for additional information, and confirmed their intent to continue seeking Federal approval for the Conversion, on December 20, 2007, and are in the process of preparing an additional submission responsive to the FHWA's request. Representatives of the Commission and PennDot met on January 9, 2008 in Harrisburg with FHWA representatives to discuss the additional information to be included in the updated application. As a result of these discussions, it is anticipated that an amended application will be submitted during 2008. There can be no assurance that the application will be approved by FHWA, or that a slot in the Pilot Program will be available for the Commonwealth. In addition, Act 44 requires the Commission to enter into the

Lease with PennDot with respect to Interstate 80, pursuant to which the Commission shall make base payments to PennDot of \$750,000,000 in Fiscal Year 2007-2008, \$850,000,000 in Fiscal Year 2008-2009, \$900,000,000 in Fiscal Year 2009-2010. In each Fiscal Year after Fiscal Year 2009-2010 for the remainder of the 50 year term of the Lease, the Commission payment to PennDot is required to increase by 2.5% annually. Upon and after the conversion of Interstate 80 to a toll road, the Commission will receive a credit towards such payment obligation for the Interstate 80 operational cost savings of \$116,985,856 per fiscal year, which amount shall be increased by 4% annually. If Interstate 80 is not converted to a toll road, the Commission's base payments under Act 44 to the Pennsylvania Department of Transportation are reduced to \$450,000,000 annually. Pursuant to Act 44, the Commission is also committed to make annual surplus payments of the General Reserve Fund Surplus at the end of each fiscal year, unless such conversion does not occur.

### **Interchanges and Service Areas**

The Pennsylvania Turnpike System has a total of 57 interchanges which connect it with major arteries and population centers in its 531 mile traffic corridor. Thirty of the interchanges are located on the Turnpike Mainline, including Turnpike Mainline barriers at the New Jersey and Ohio state lines, and 10 interchanges are situated on the Northeast Extension. The additional 17 interchanges are located on the 3 extensions previously note d. There are currently 19 service plazas along the Pennsylvania Turnpike System providing gasoline and diesel fuel, other automotive supplies and services and restaurant services. The Pennsylvania Turnpike Commission recently negotiated long-term leases with HMSHost Restaurants, LLC and Sunoco, Inc. to design, reconstruct, finance, operate and maintain the Commission's Service Plazas. The two companies are expected to invest approximately \$190 million in the project over a five-year period, at no cost to the Commission. If Interstate 80 is converted to a toll road, Act 44 prohibits service plazas on the right of way and mandates adoption of an open tolling system of no more than 10 toll collection points.

### **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 9 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 5 revisions in its toll schedule, effective on September 1, 1969, August 1, 1978, January 2, 1987, June 1, 1991 and August 1, 2004. On August 1, 2004, Turnpike tolls increased by 1.8 cents per mile for passenger vehicles from 4.1 to 5.9 cents per mile. Commercial vehicles had an average increase of 5.3 cents per mile. This toll increase is consistent with the rate of inflation over the 13 years since the Commission's prior toll increase in 1991. All revenue generated by this toll increase have been used to fund capital improvements to the Turnpike's roads, tunnels and other system upgrades. This toll increase and any future toll increase will also be used to provide funds for Lease Rental Payments and other Act 44 purposes.

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

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

Vehicle Toll Class	Gross Vehicle Weight (Thousand Pound)	Current Toll	Per Mile Rate
1	1-7	\$21.25	\$0.0590
2	7-15	31.25	0.0870
3	15-19	39.00	0.1080
4	19-30	45.25	0.1260
5	30-45	63.75	0.1770
6	45-62	80.75	0.2240
7	62-80	115.25	0.3200
8	80-100	150.75	0.4190
9	Over 100	861.00	2.3920

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

Act 44 requires the Commission to fix toll rates such that revenues from tolls and other sources to the Commission are sufficient to pay the cost of the System's operation, construction, expansion and maintenance, all Commission obligations and interest thereon, sinking fund requirements of the Commission, other requirements in any trust indentures, notes or resolutions, payments to the Pennsylvania Department of Transportation under the Lease and any repayment to the Federal Government with respect to the conversion of Interstate 80 to a toll road. It is expected that tolls on the Turnpike Mainline will have to be increased to enable the Commission to make payments under the Lease with PennDot described above.

If the Commission applies to and receives approval from the U.S. Department of Transportation to convert Interstate 80 to a toll road, additional toll revenues could be generated from Interstate 80, although it has not been determined whether Interstate 80 will become a part of the System or operated separately from the System. If an application for conversion is approved, PennDot and the Commission will enter into an agreement with the federal government concerning the operation of Interstate 80, including the use of the proceeds of toll revenue from Interstate 80. There can be no assurance that such agreement will authorize or permit the use of the proceeds of toll revenue from Interstate 80 to pay some or any portion of the future Lease Rental Payments due to PennDot under the Lease.

**Five-Year Financial History**

The following tables II and III summarize the financial history of the System for the five fiscal years from 2003 to 2007. 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 B -- AUDITED 2007 AND 2006 FINANCIAL STATEMENTS".

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

<u>Year Ended</u> <u>May 31:</u>	Number of Vehicles			Fare Revenues				
	<u>Passenger</u>	<u>Commercial</u>	<u>Total</u>	<u>Passenger</u>	<u>Commercial</u>	<u>Total</u>	<u>Discount</u>	<u>Net Fare Revenues</u>
2003	156,220	23,179	179,399	\$219,201	\$180,300	\$399,501	\$12,279	\$387,222
2004	163,612	24,407	188,019	\$228,515	\$191,801	\$420,316	\$11,572	\$408,744
2005	163,316	25,109	188,425	\$309,032	\$252,097	\$561,129	\$15,971	\$545,158
2006	160,421	25,403	185,824	\$321,268	\$286,140	\$607,408	\$18,771	\$588,637
2007	161,420	25,655	187,075	\$322,781	\$290,562	\$613,343	\$20,701	\$592,642

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

	2003	2004	2005	2006	2007
<b>Revenues</b>					
Net Toll Revenues	\$387,222	\$408,744	\$545,158	\$588,637	\$592,642
Concession Revenues	10,343	10,793	10,923	8,486	3,877
Interest Income (non bond proceeds)	6,162	5,667	7,139	8,400	13,142
Miscellaneous	<u>10,626</u>	<u>8,241</u>	<u>15,393</u>	<u>12,484</u>	<u>11,925</u>
<b>Total Revenues</b>	\$414,353	\$433,445	\$578,613	\$618,007	\$621,586
<b>Operating Expenditures</b>					
Turnpike Patrol	\$22,952	\$24,648	\$25,278	\$28,965	\$30,735
General & Administrative	15,473	14,677	15,247	15,438	16,670
Normal Maintenance	52,820	52,368	51,226	53,095	57,110
Fare Collection	57,188	55,266	54,681	55,149	55,007
Traffic Services, Safety & Communications	<u>51,096</u>	<u>62,688</u>	<u>72,336</u>	<u>79,172</u>	<u>83,984</u>
<b>Total Operating Expenditures</b>	\$199,529	\$209,647	\$218,768	\$231,819	\$243,506
Revenues less Operating Expenditures	\$214,824	\$223,798	\$359,845	\$386,188	\$378,080
Annual Debt Service Requirement	\$87,369	\$83,350	\$88,112	\$97,654	\$111,543
Coverage Ratio	2.46	2.69	4.08	3.95	3.39
Transfer to the Reserve Maintenance Fund	\$115,000	\$132,000	\$245,000	\$249,220	\$256,000

(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.

In addition, Act 44 requires the Auditor General of the Commonwealth to conduct an audit of the accounts of the Commission and to review its performance, procedures, operating budget, capital budget and debt every four years. Act 44 also requires the Commission to prepare and submit to the Secretary of the Budget a financial plan no later than June 1 of each year for the ensuing Fiscal Year, describing its proposed operating and capital expenditures, borrowings, liquidity and other financial management covenants and policies, estimated toll rates and all other revenues and expenses. The financial plan is to demonstrate that the Commission's operation in accordance with the plan can be reasonably anticipated to have unencumbered funds sufficient to make all payments due to the PennDot under Act 44 and the Lease in the upcoming year after all other Commission Obligations have been met. Any deviations and the causes therefor in prior year plans must be explained.

## **Financial Policies and Guidelines**

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

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

The Commission's Interest Rate Swap Management Policy ("Swap Policy") establishes guidelines for the use and management of all interest rate management agreements, including, but not limited to, interest rate swaps, swap options, caps, collars and floors (collectively "Swaps" or "Agreements") incurred in connection with the incurrence of debt. The Commission may change the Swap Policy in its sole discretion.

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

Swap Counterparties - Credit Criteria. The Commission will make its best efforts to work with qualified Swap counterparties that have a general credit rating of: (i) at least "A3" or "A-" by two of the nationally recognized rating agencies and not rated lower than "A3" or "A" by any nationally recognized rating agency, or (ii) have a "non-terminating" "AAA" subsidiary as rated by at least one nationally recognized credit rating agency.

Term and Notional Amount. For Swaps tied to an issued series of bonds, the term of the Swap agreement shall not extend beyond the final maturity date of the related bonds. The total net notional amount of all Swaps related to a bond issue should not exceed the amount of outstanding bonds. In calculating the net notional amount, netting credit shall be given to any Swaps that offset each other for a specific bond transaction.

Security and Source of Repayment. The Commission may use the same security and source of repayment (pledged revenues) for Swaps as is used for the bonds that are hedged by the Swap, if any, but shall consider the economic costs and benefits of subordinating the Commission's payments and/or termination payment under the Swap. The Commission shall consult with Bond Counsel regarding the legal requirements associated with making the payments under the Swap on a parity or non-parity basis with outstanding Commission debt.

Prohibited Agreements. The Commission will not use Agreements that:

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

Annual Swap Report. The Commission's Director of Treasury Management, in consultation with the Commission's Financial Advisor, Swap Advisor and Bond Counsel, will evaluate the risks associated with outstanding Swaps at least annually and provide to the Senior Executives and the Commissioners a written report of the findings based upon criteria set forth in the Policy.

Disclosure and Financial Reporting. The Commission will ensure that there is full and complete disclosure of all Swaps to rating agencies, and in disclosure documents. Disclosure in marketing documents, including Bond offering documents, shall provide a clear summary of the special risks involved with Swaps and any potential exposure to interest rate volatility or unusually large and rapid changes in market value. With respect to its financial statements, the Commission will adhere to the guidelines for the financial reporting of Swaps, as set forth by the Government Accounting Standards Board or other applicable regulatory agencies.

The Commission has a number of interest rate exchange agreements with respect to certain series of the Bonds as well as with respect to certain series of its Registration Fee Revenue Bonds and Oil Franchise Tax Revenue Bonds. See "APPENDIX A – AUDITED FINANCIAL STATEMENTS: 2007 AND 2006".

There are a number of risks associated with Swaps that could affect the value of the Swaps, the ability of the Commission to accomplish its objectives in entering into the Swaps and the ability of the Commission to meet its obligations under the Swaps. These risks include, among others, the following: counterparty risk – the failure of the counterparty to make required payments; credit risk – the occurrence of an event modifying the credit rating of the Commission or its counterparty; termination risk – the need to terminate the transaction in a market that dictates a termination payment by the Commission; tax risk – the risk created by potential tax events that could affect Swap payments; and basis risk – the mismatch between actual variable rate debt service and variable rate indices used to



determine Swap payments. The Commission actively monitors the degree of risk and exposure associated with the Swaps to which it is a party but can offer no assurances that compliance with its Swap Policy will prevent the Commission from suffering adverse financial consequences as a result of these transactions.

### **E-ZPass Lanes**

The Commission has installed E-ZPass, a form of electronic toll collection throughout the mainline portion of 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. Express E-ZPass lanes have been constructed at three interchanges and permit E-ZPass customers to travel through the toll plaza at highway speeds. In addition, E-ZPass customers traveling or commuting to at least twelve other states that have implemented E-ZPass technology are able to use E-ZPass. The installation by the Commission of the E-ZPass system is being done in phases that continue to be completed on schedule. Currently, E-ZPass is available on the entire Turnpike system, including the western extensions, with the exception of the Mon-Fayette Expressway. Installation of E-ZPass on the open sections of the Mon-Fayette Expressway is scheduled for early 2008. The Commission has not experienced material problems in connection with the installation or operation of the E-ZPass system.

To help ensure, protect and preserve the collection of toll revenue due to the Commission, a violation enforcement system (VES) has been installed at all interchanges where E-ZPass has been installed to identify violators (customers who travel through E-ZPass lanes and do not have E-ZPass) and motorists with problem tags that result in no reads. VES enables the Commission to collect appropriate tolls and other additional fees relating to the evasion of fares through E-ZPass lanes and other causes of non-payment. Act 44 includes new enforcement provisions for E-ZPass, including, among other things, certain evidentiary presumptions with respect to whether the operator of a vehicle using E-ZPass fails to pay the prescribed toll, procedures for notifying the vehicle operator of the violation charged, evidentiary standards for determining if a violation occurred and civil liability amounts of the vehicle owner for violations.

The Commission's annual revenues from E-ZPass drivers increased to \$345,951,040 during the fiscal year ended May 31, 2007 from \$310,814,910 during the fiscal year ended May 31, 2006. The Commission's annual revenues from ticketed drivers (i.e. those not using E-ZPass) decreased to \$246,690,467 from \$277,821,789 during the same period. The Commission expects that E-ZPass usage will continue to grow.

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

New highway construction projects, such as the Mon/Fayette Expressway and Southern Beltway, are being designed and built to be compatible with the introduction of the E-ZPass system. The installation of the EZPass system has required the incorporation of innovative technologies into a single toll system that uses hardware and software adaptable to future technologies. The Commission has a contract, extending through 2009, with TransCore Company for the design, installation and maintenance of the E-ZPass system software and hardware and the operation of the E-ZPass Customer Service and Violations Processing Centers. The E-ZPass system implementation is a major component of the Commission's Ten-Year Capital Plan. In addition to completing the installation of E-ZPass on the Mon-Fayette Expressway, plans call for enhancements to E-ZPass lane signage and design of additional Express E-ZPass lanes.

### **Slip Ramps**

The Commission has constructed an alternative interchange (a "Slip Ramp") near the Fort Washington Interchange. Such unmanned ramps, designed for the exclusive use of E-ZPass customers, are expected to reduce congestion at the Turnpike's busier interchanges and similarly are expected to provide better access to industrial parks and job centers. The Commission is considering the construction of slip ramps in other growing areas as well. Slip ramp locations currently in design include Route 29 in Chester County, near the Great Valley Corporate Center; Route 903 in Carbon County; Philadelphia Park in Bucks County; and the Lansdale Interchange in Montgomery County.

### **Personnel and Labor Relations**

As of March 7, 2008, the Commission employed 2,257 persons, consisting of 470 management employees, 1,640 union members, and 147 temporary employees. Seventy-seven (77%) of all employees are engaged in maintenance operations and fare collection. The civil service requirements applicable to the state government do not apply to employees of the Commission.

The Commission is a party to three collective bargaining agreements and one memorandum of understanding with Teamsters' Local Unions covering central office, field, and first level supervisory personnel. The three collective bargaining agreements expired on September 30, 2007. The Commission and the unions agreed to extend these collective bargaining agreements on the basis of certain agreed upon changes (which have already been implemented) while the parties continue negotiation of permanent successor collective bargaining agreements. The memorandum of understanding has no termination date. Since union representation began, the Commission has experienced one work stoppage which occurred on November 24, 2004 and lasted for 7 days.

### **Retirement Plan**

Substantially all employees of the Commission are covered by the State Employee's Retirement System of the Commonwealth. The costs of the contributory plan are paid by the Commission quarterly based upon a stipulated contribution rate. Participating agency contributions, including those for the Commission, are mandated by statute and are based upon an actuarially determined percentage of gross pay that is necessary to provide the State Employee's Retirement System with assets sufficient to meet the benefits to be paid to the State Employee's Retirement System members. Retirement plan contributions, which are treated as an operating expense of the System, total \$3,494,926 for Fiscal Year 2007 with a contribution rate of 3.23% for Class "AA" and 2.59% for Class "A" employees from June 2006, to July 2007. The rate for June 2006 was 2.37% for Class "AA" and 1.9% for Class "A"

employees. The Commission's contribution rate for Fiscal Year ending May 31, 2008 is 3.28% for Class "AA" employees and 2.63% for Class "A" employees. The current rate was effective July 2007.

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

Historically, the Commission has funded its post-employment benefit liabilities on a pay-as-you-go basis. In accordance with the pronouncements of the Governmental Accounting Standards Board applicable to the Commission, the Commission will begin reporting its unfunded actuarial accrued liabilities for health care and other non-pension post-employment benefits ("OPEB") and its annual OPEB cost each year commencing with its audited financial statements for the fiscal year ending May 31, 2008. The Commission's unfunded actuarial accrued OPEB liability as of February 28, 2006 was \$167.8 million using an 8% discount rate and assuming that the annual required contribution would be invested in an irrevocable separate trust account. The Commission's annual required contribution for fiscal year 2008 is \$19.5 million. The Commission is required to have biennial actuarial valuations of its OPEB obligations.

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

Expressing concern for the future tolling of Interstate 80, on September 5, 2007, Governor Rendell announced the issuance of a "Request for Pennsylvania Turnpike Concessionaire Qualifications" (the "RFQ") soliciting certain detailed technical and financial information from interested potential bidders on a potential longterm lease and concession agreement to operate the Pennsylvania Turnpike. Each potential bidder must provide detailed information on its team, its toll road operations experience and capabilities, its customer service record, its experience with safety issues and its financial capabilities. Governor Rendell has stated his desire to reconsider a public-private partnership with respect to the Turnpike as a means of funding new transportation improvements. Any such long-term lease and concession of the Turnpike would require approval from the Pennsylvania General Assembly.

From time to time, legislation is introduced in the Pennsylvania General Assembly which may affect the Commission. For example, one bill was introduced in the House of Representatives to amend Act 44. Among other things, that bill provides that the Commission and PennDot shall not enter into the Lease prior to December 15, 2007 and would give approval powers to the General Assembly over tolls which the Commission may charge for Interstate 80. Another bill was introduced in the House of Representatives, which if enacted, would repeal significant portions of Act 44. The staff of the Commission cannot predict whether any of such bills or other legislation which may be proposed will ultimately be enacted into law.

At the federal level, United States Representatives whose districts are traversed by Interstate 80 have urged the U.S. Secretary of Transportation not to approve any application from the Commission and PennDot to convert Interstate 80 to a toll road. Legislation also has been introduced in the U.S. Congress that could affect efforts to convert Interstate 80 to a toll road, including without limitation, the Fiscal Year 2008 appropriations bill for the U.S. Department of Transportation, which has passed the U.S. House of Representatives, and includes an amendment offered by two of Pennsylvania's U.S. Representatives that would prohibit the use of federal funds to effect the tolling of Interstate 80. Accordingly, there can be no assurance that the application filed by the Commission in consultation with PennDot to convert Interstate 80 to a toll road will be approved by the U.S. Department of Transportation, nor can there be any assurance that federal legislation removing the economic incentives for conversion of Interstate 80 to a toll road will not be enacted.

## CAPITAL IMPROVEMENT

### Act 61 Projects

In 1985, the General Assembly of the Commonwealth enacted Act 61 that, among other things, authorized and empowered the Commission to undertake the construction of new projects and to operate them as part of the System. Although Act 44 repeals Act 61, it further provides that all activities initiated under Act 61 shall continue and remain in full force and effect and may be completed under Act 44.

### Mon/Fayette Expressway and Southern Beltway

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

Two other projects will complete the entire Mon/Fayette Expressway. A 15 mile section, extending from Uniontown to Brownsville, is now under construction. Approximately 8 miles of the expressway will open to traffic in 2008. The remaining 7 miles, Phase 2 of the project, will begin construction in 2008 and is scheduled to open in 2012. A 24 mile section, extending from Pennsylvania Route 51 to Interstate Route 376 in Pittsburgh, received environmental clearance in December 2004. Final design is currently underway. Right-of-Way acquisition and construction cannot be started until additional funding is identified.

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 proposed Southern Beltway is to be constructed from the Mon/Fayette Expressway, near Finleyville, extending as part of a beltway south of Pittsburgh to Pennsylvania Route 60 at the Pittsburgh International Airport. It is composed of three distinct projects. The project from PA 60 to U.S. 22 opened to traffic in late 2006. The project from U.S. 22 to I-79 is in final design; right-of-way acquisition will begin in late 2008. The remaining Southern Beltway project, from I-79 to the Mon/Fayette Expressway, is in the environmental study phase.

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

### Ten Year Capital Plan

The Commission has a Ten Year Capital Plan, consisting of Highway, Information Technology and Infrastructure support programs, which it updates each year. The current Ten Year Capital Plan for Fiscal Year 2007-2008 is included below. The Highway program consists of roadway, bridge, tunnel,

and toll plaza/interchange projects. The Information Technology program consists of toll collection, communication, Intelligent Transportation Systems (ITS) and other electronic information management projects. The Infrastructure Support Program consists of facilities and large, heavy or high-value equipment needs.

The highest priority highway project is the ongoing full depth roadway total reconstruction of the east/west Mainline and Northeast Extension. This work includes the reconstruction of the roadway, the widening of the median, and the replacement of both mainline and overhead bridges. To date, approximately 48 miles of this project have been completed and approximately 15 miles are currently in construction. The Reconstruction from Gateway Interchange (Milepost 1.5) to New Castle Interchange (Milepost 10.0) and Valley Forge Interchange (Milepost 326.0) to Norristown Interchange (Milepost 333.0) are currently underway. The Commission currently plans to spend approximately \$2.0 billion on total reconstruction projects and about \$887 million on various bridge projects over the next ten years.

Other highway projects include the construction of the Susquehanna River Bridge replacement which was completed in 2007 followed by the replacement of the Allegheny River Bridge which was initiated in 2007. The replacement of the Lehigh River and Pohopoco River Bridges on the North East Extension will start construction in late 2008. Work is underway for the replacement of the Gettysburg Toll Plaza and will be completed in 2008. These interchange replacement projects will be completed in 2007.

The Information Technology program includes funding of \$241 million over the next ten years to address the Commission's Information Technology needs including toll collection projects, communication, application development and technical operational needs. One of the primary initiatives of the Information Technology Program is a project to replace the Commission's core financial and administrative systems with an Enterprise Resource Planning (ERP) system software package. The Commission is in the process of implementing SAP to provide a set of integrated business process supported by multi-module application software with a centralized data repository.

The Infrastructure Support Program includes funding of \$90 million over the next ten years to ensure that the Commission is able to replace equipment in a cost effective manner and funding of \$362 million has been programmed to repair and place the aging facilities of the Commission. This commitment will ensure that adequate equipment and facilities are in good repair to support the maintenance of the Turnpike.

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**PENNSYLVANIA TURNPIKE COMMISSION**  
**FISCAL YEAR 2007-2008 TEN YEAR CAPITAL PLAN - ANNUAL PROGRAM DETAIL**  
**(IN MILLIONS OF \$)**

CAPITAL PLAN CATEGORY	# OF PROJECTS	% OF PROJECTS	Current	Priority A Year 2-4				Priority B Year 5-7				Priority C Year 8-10				TOTAL	% OF TOTAL
			FY 2007-2008	FY 2008-2009	FY 2009-2010	FY 2010-2011	FY 2011-2012	FY 2012-2013	FY 2013-2014	FY 2014-2015	FY 2015-2016	FY 2016-2017					
<b>HIGHWAY PROGRAM</b>																	
Roadway	71	30%	273.5	261.0	241.8	255.0	252.9	254.5	252.2	255.1	274.1	280.2	\$2,600	56%			
Structures	51	22%	107.6	104.6	110.2	107.6	112.2	98.1	77.9	54.4	60.4	71.4	\$904	19%			
Tunnels	16	7%	1.8	2.4	4.0	7.9	8.3	4.5	10.4	31.0	24.5	24.5	\$119	3%			
Toll Plazas	10	4%	12.2	8.1	20.1	33.6	40.1	55.5	55.5	50.5	43.0	25.0	\$343	7%			
<b>TOTAL</b>	<b>148</b>	<b>63%</b>	<b>395.0</b>	<b>376.0</b>	<b>376.0</b>	<b>404.0</b>	<b>413.4</b>	<b>412.6</b>	<b>396.0</b>	<b>391.0</b>	<b>402.0</b>	<b>401.0</b>	<b>\$3,967</b>	<b>85%</b>			
<b>INFORMATION TECHNOLOGY PROGRAM</b>																	
Toll Collection	8	3%	8.4	2.8	0.0	3.1	3.8	3.3	1.8	1.0	0.0	0.0	\$24	1%			
Communications	9	4%	5.1	4.3	2.7	5.3	5.2	2.0	1.8	1.8	1.6	1.5	\$31	1%			
Application Development	4	2%	28.1	26.6	20.1	16.4	7.6	10.5	20.2	18.0	8.2	8.3	\$164	4%			
Technical Operations	2	1%	0.0	0.0	0.0	2.3	1.1	1.3	10.3	2.3	2.3	2.3	\$22	0%			
<b>SUB TOTAL</b>	<b>23</b>	<b>10%</b>	<b>41.5</b>	<b>33.6</b>	<b>22.9</b>	<b>27.0</b>	<b>17.6</b>	<b>16.9</b>	<b>34.0</b>	<b>23.1</b>	<b>12.0</b>	<b>12.0</b>	<b>\$241</b>	<b>5%</b>			
<b>FEDERAL REIMBURSEMENTS TOTAL</b>			2.1	2.1	1.4												
			39.0	31.5	21.5	27.0	17.6	16.9	34.0	23.1	12.0	12.0	\$235				
<b>INFRASTRUCTURE SUPPORT PROGRAM</b>																	
Service Plazas	1	0%	0.5	0.3	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	\$1	0%			
Facilities	61	26%	30.5	38.7	41.2	33.7	34.7	34.7	33.1	38.0	38.6	39.0	\$362	8%			
Equipment (Rolling Stock)	3	1%	10.0	8.5	6.0	10.0	9.3	10.8	11.9	8.0	7.4	8.0	\$90	2%			
<b>TOTAL</b>	<b>65</b>	<b>28%</b>	<b>41.0</b>	<b>47.5</b>	<b>47.5</b>	<b>44.0</b>	<b>44.0</b>	<b>45.5</b>	<b>45.0</b>	<b>46.0</b>	<b>46.0</b>	<b>47.0</b>	<b>\$454</b>	<b>10%</b>			
<b>TOTAL TURNPIKE NEEDS by YEAR</b>	<b>236</b>	<b>100%</b>	<b>\$475.0</b>	<b>\$455.0</b>	<b>\$445.0</b>	<b>\$475.0</b>	<b>\$475.0</b>	<b>\$475.0</b>	<b>\$475.0</b>	<b>\$460.1</b>	<b>\$460.0</b>	<b>\$460.0</b>	<b>\$4,655</b>	<b>100%</b>			

## **Capacity Needs Study**

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

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**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS: 2007 AND 2006**

[See Attached Statements]

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BASIC FINANCIAL STATEMENTS

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania  
Years Ended May 31, 2007 and 2006  
With Report of Independent Auditors

# Pennsylvania Turnpike Commission

## Basic Financial Statements

Years Ended May 31, 2007 and 2006

### Contents

Report of Independent Auditors.....	1
Management's Discussion and Analysis .....	2
Audited Basic Financial Statements	
Balance Sheets .....	10
Statements of Revenues, Expenses, and Changes in Net Assets .....	12
Statements of Cash Flows .....	13
Notes to Financial Statements.....	15

## Report of Independent Auditors

The Commissioners  
Pennsylvania Turnpike Commission

We have audited the accompanying balance sheets of the Pennsylvania Turnpike Commission, a component unit of the Commonwealth of Pennsylvania, as of May 31, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Pennsylvania Turnpike Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pennsylvania Turnpike Commission as of May 31, 2007 and 2006, 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 9 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 supplementary information. However, we did not audit the information and express no opinion on it.

*Ernst & Young LLP*

September 4, 2007

# Pennsylvania Turnpike Commission

## Management's Discussion and Analysis

May 31, 2007

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, 2007, which should be read in conjunction with the Commission's basic financial statements.

### **Overview of the Basic Financial Statements**

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

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

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

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

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

## Pennsylvania Turnpike Commission

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

#### Financial Analysis

#### Comparative Condensed Balance Sheets

	<b>2007</b>	<b>May 31 2006</b>	<b>2005</b>
	<i>(In Thousands)</i>		
<b>Assets</b>			
Current assets	\$ 654,864	\$ 734,753	\$ 623,556
Long-term investments	544,855	447,092	708,758
Capital assets, net of accumulated depreciation	3,430,937	3,022,294	2,803,769
Other assets	26,290	23,809	24,547
<b>Total assets</b>	<b>\$ 4,656,946</b>	<b>\$ 4,227,948</b>	<b>\$ 4,160,630</b>
<b>Liabilities and net assets</b>			
Current liabilities	\$ 230,368	\$ 203,842	\$ 177,605
Bonds payable, net of unamortized premium and unamortized refunding losses	2,631,488	2,326,703	2,371,339
Other noncurrent liabilities	34,942	30,486	18,383
<b>Total liabilities</b>	<b>2,896,798</b>	<b>2,561,031</b>	<b>2,567,327</b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	772,709	666,356	408,557
Restricted	731,995	830,412	1,092,830
Unrestricted	255,444	170,149	91,916
<b>Total net assets</b>	<b>1,760,148</b>	<b>1,666,917</b>	<b>1,593,303</b>
<b>Total liabilities and net assets</b>	<b>\$ 4,656,946</b>	<b>\$ 4,227,948</b>	<b>\$ 4,160,630</b>

As noted earlier, net assets serve as an indicator of the Commission's overall financial position. The Commission's total net assets were \$1,760,148,000, \$1,666,917,000, and \$1,593,303,000 as of May 31, 2007, 2006, and 2005, respectively. Restricted net assets are reserved for projects defined in trust indentures and applicable bond issue official statements.

Total assets increased by \$429.0 million and \$67.3 million in fiscal 2007 and fiscal 2006, respectively. The 2007 increase is mainly the result of an increase of \$408.6 million in capital assets. The increase in capital assets is the result of an increase of \$318.6 million in construction in progress and a \$232.6 million increase in infrastructure. The infrastructure increase is largely related to the completion of the Findlay Connector. The 2006 increase is mainly the net result of an increase of \$218.5 million in capital assets, offset by a decrease of \$154.9 million in cash and investments used to fund capital spending. There was little change in total cash and investments from May 31, 2006 to May 31, 2007; total cash and investments increased \$13.1 million or 1.2%.

## Pennsylvania Turnpike Commission

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

#### Financial Analysis (continued)

Total liabilities increased by \$335.8 million in fiscal 2007 and decreased by \$6.3 million in fiscal 2006. The fiscal 2007 increase is mainly attributable to the Series 2006 Revenue Bonds issued primarily to finance various projects in the Commission's Ten-Year Capital Plan. Current liabilities increased by \$26.5 million, which was a result of the increase in capital expenditures. The fiscal 2006 increase was mostly attributable to increases in accounts payable and contract retention resulting from the higher levels of capital spending.

#### Comparative Statements of Revenues and Expenses

	Year Ended May 31		
	2007	2006	2005
	<i>(In Thousands)</i>		
Operating:			
Operating revenues	\$ 608,444	\$ 609,608	\$ 569,893
Cost of services	(369,855)	(362,618)	(269,125)
Depreciation	(198,414)	(214,885)	(211,401)
Operating income	<u>40,175</u>	<u>32,105</u>	<u>89,367</u>
Nonoperating revenues (expenses):			
Oil company franchise tax revenues	67,071	55,749	51,551
Motor license registration fee revenue	28,000	28,000	28,000
Investment earnings	67,689	60,506	38,927
Other nonoperating revenues	1,405	1,789	658
Interest and bond expense	(135,415)	(127,565)	(118,373)
Nonoperating income	<u>28,750</u>	<u>18,479</u>	<u>763</u>
Change in net assets before capital contributions	68,925	50,584	90,130
Capital contributions	24,306	23,030	9,647
Change in net assets	<u>\$ 93,231</u>	<u>\$ 73,614</u>	<u>\$ 99,777</u>

For fiscal years ended May 31, 2007, 2006, and 2005, operating and nonoperating revenues totaled \$772.6 million, \$755.7 million, and \$689.0 million, respectively, while expenses totaled \$703.7 million, \$705.1 million, and \$598.9 million, respectively.



## Pennsylvania Turnpike Commission

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

#### Financial Analysis (continued)

Total revenues for fiscal 2007 were \$16.9 million higher than 2006. The main increase was in the Oil Company Franchise Tax revenues which increased \$11.3 million. The Oil Company Franchise Tax rate is set annually based on the average wholesale price of gas. Therefore, because of the increase in gas prices the Oil Company Franchise Tax increased. Operating revenue decreased \$1.2 million while nonoperating revenue increased \$18.1 million due mainly to the increase in Oil Company Franchise Tax revenue and a \$7.2 million increase in investment earnings. Total expenses for 2007 were \$1.4 million lower than 2006. Cost of services increased \$7.2 million or 2.0% and depreciation decreased \$16.5 million or 7.7%. Although \$271.2 million of capital assets were added to the depreciable base during the fiscal year ended May 31, 2007, other assets were fully depreciated, which caused the 7.7% decrease in depreciation expense.

Total revenues for fiscal 2006 were \$66.7 million higher than prior year with increases in net fare revenue of \$43.5 million, which was the result of having the August 1, 2004 toll rate schedule in effect for the full year versus ten months in the prior year and a \$26.9 million increase in nonoperating income. Total expenses were \$106.2 million higher than fiscal 2005. Cost of services increased by \$93.5 million, depreciation expense by \$3.5 million, and interest and bond expenses by \$9.2 million. The increase in cost of services was mostly related to non-capitalizable projects for maintaining the road and facilities, which increased by \$76.2 million or 167%. Depreciation expense increased \$3.5 million over the prior year, compared with a decrease of \$18.1 million from 2004 to 2005. Total capital additions during the fiscal year were more than \$440 million, compared with \$341 million of additions in 2005.

For fiscal 2006, nonoperating income was \$146.0 million, which was \$26.9 million higher than the \$119.1 million in fiscal 2005. This increase is attributable to a \$21.6 million or 55.4% increase in investment income and a \$4.2 million or 8.1% increase in Oil Company Franchise Tax revenues. Interest and bond expenses increased by \$9.2 million, netting to an increase of \$17.7 million in nonoperating revenue and expenses combined. The increase in interest and bond expenses results from the defeasance of the 2001 Registration Fee bonds by the 2005 Registration Fee bonds. The improvement in investment income was the result of a \$26.3 million increase in interest income, offset by a decrease of \$5.8 million in the fair value of investments. This increase was the result of funds invested in State and Local Government Series (SLGS) to lock in favorable interest rates when available while maintaining necessary liquidity in order to reduce certain amounts of negative arbitrage that existed in various construction funds.

## Pennsylvania Turnpike Commission

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

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

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

##### *Capital Assets*

The Commission's investment in capital assets as of May 31, 2007 amounted to \$6.7 billion of gross asset value with accumulated depreciation of \$3.3 billion, leaving a net book value of \$3.4 billion. This investment represents 73.7% of the Commission's total assets compared with 71.5% in 2006. Capital assets consist of land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are typically items that are immovable such as highways, bridges, and tunnels. The net book value of capital assets at May 31, 2006 was \$3.0 billion.

Construction in progress at the end of fiscal 2007 was \$1,194.4 million, which was \$318.6 million higher than the fiscal 2006 amount of \$875.8 million. The increase in construction in progress was the result of increased spending on projects that were not completed at year end. In fiscal 2007, \$254.3 million of constructed capital assets were completed which was \$212.3 million more than the \$41.9 million of constructed capital assets that were completed in fiscal 2006. In addition to constructed capital assets, the Commission made capital asset acquisitions totaling more than \$34.8 million and \$28.4 million in fiscal 2007 and 2006, respectively.

The Commission spent \$527 million on capital improvements to the existing mainline system and \$190.5 million on the Mon/Fayette Expressway and Southern Beltway roadway expansion (Act 61) projects during fiscal year 2007.

Total reconstruction of the east/west mainline and northeast extension continues to be a main priority of the Commission. This work includes full depth reconstruction of the roadway, widening of the median, and replacement of both mainline and overhead bridges and is estimated to cost between \$8 million and \$10 million per mile. To date, approximately 48.5 miles of this project has been completed and reconstruction of an additional 16.5 miles has been initiated. The Commission also completed 32 miles of roadway repaving to maintain a quality riding surface, which was confirmed with a systemwide median IRI (International Roughness Index) of 83.

The westbound structure of the new Susquehanna River Bridge was opened to traffic in May 2007 while the eastbound structure followed a month later and was opened in June. Work continues on the project with the demolition of the old bridge. The complete replacement of the Allegheny River Bridge project was given notice-to-proceed in May 2007 with an estimated cost of just over \$200 million.

## Pennsylvania Turnpike Commission

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

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

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

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

The Commission continues to expand and enhance the new toll collection system that includes E-ZPass capability. All interchanges on the mainline (I-76/I-70) and northeast extension (I-476) are equipped with E-ZPass. Installation of E-ZPass continues on the Amos K. Hutchinson Expressway (Turnpike 66) and is expected to be completed in September 2007; installation of E-ZPass on the Beaver Valley Expressway (Turnpike 60) was completed in May 2007.

Facility projects continue to focus on maintaining environmental compliance and the maintenance and repair of existing buildings and building systems. Additionally, the Commission continues to work on toll plaza replacement projects and will complete the Gettysburg, Harrisburg East, and Lebanon/Lancaster interchange projects in fiscal 2008; the Norristown interchange was completed in fiscal 2007.

Equipment purchases continue to ensure that an aging fleet of dump trucks and other equipment is replaced in a systematic manner so that maintenance staff will be properly equipped to maintain the roadway. The Commission's capital plan includes \$90 million over the next ten years for equipment.

Approximately one-half of the 70-mile Mon/Fayette Expressway project is open and operating. Phase 1 of the Uniontown to Brownsville project, an 8.4-mile section from Pittsburgh Road to US 40 is now under construction and anticipated to open to traffic in late 2008 or early 2009.

Phase 2 of the Uniontown to Brownsville project, a 7-mile section, will complete the Mon/Fayette Expressway from the West Virginia State Line in Fayette County to PA Route 51 in Washington County. Phase 2 will be bid as soon as the resources are allocated to the project. Preliminary design for the section from PA Route 51 to Interstate 376 in Pittsburgh will be completed in calendar year 2007.

The proposed Southern Beltway will be constructed in three sections from the Mon/Fayette Expressway, near Finleyville, extending as part of the beltway south of Pittsburgh, to PA Route 60 at the Pittsburgh International Airport. The Findlay Connector (PA 60 to US 22), a 6-mile section of the Southern Beltway from the Pittsburgh International Airport to US 22, was opened for traffic in October 2006. The remaining two sections are currently in the environmental study phase.

## Pennsylvania Turnpike Commission

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

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

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

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

A federal Environmental Impact Record of Decision was issued for the I-95 Turnpike interchange project in 2004. Project design started in 2004 and construction is planned to begin in 2008. The project will be completed in three stages and is expected to cost more than \$1 billion.

The above paragraphs describe the changes in capital assets occurring during the fiscal year. Please refer to the capital assets section in the notes to the financial statements (Note 5) for more detailed capital asset schedules.

##### *Debt Administration*

In June 2006, the Commission issued Series A, B, C of 2006 Revenue Bonds in the amount of \$353,865,000. The 2006 Series Bonds were issued primarily to finance the cost of funding various capital expenditures as set forth in the Commission's Ten-Year Capital Plan. Series A are fixed-rate bonds issued for \$118,015,000. The Commission entered into a fixed-to-variable rate swap agreement with respect to the Series A of 2006 Revenue Bonds. Series B and C are variable-rate bonds and were issued for \$117,925,000 each.

In November 2006, the Commission issued Series A and B Oil Company Franchise Tax Revenue Refunding Bonds in the amount of \$240,675,000. The bonds were issued primarily to partially defease the Oil Company Franchise Tax 1998 and 2003 fixed-rate bonds. Series A are fixed-rate bonds issued for \$98,705,000. Series B are also fixed-rate and were issued for \$141,970,000.

In August 2006, the Commission entered into constant-maturity interest rate swap agreements with four counterparties with respect to the 2001 Series U bonds and 2002 Series A bonds. The notional value was \$107,784,000 each for three of the swaps; the notional value was \$134,733,000 for the fourth. The Commission receives 60.08% of the 10-year LIBOR rate and pays 67.00% of the one-month LIBOR rate.

In September 2006, the Commission entered into constant-maturity interest rate swap agreements with two counterparties with respect to the 2003 Series C Oil Company Franchise tax bonds. The notional amount for each swap was \$80,000,000. The Commission receives 60.15% of the 10-year LIBOR rate and pays 67.00% of the one-month LIBOR rate.

## Pennsylvania Turnpike Commission

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

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

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

##### *Debt Administration (continued)*

The above paragraphs describe debt and swap activity occurring during the fiscal year. Please refer to the bonds payable and commitments and contingencies sections in the notes to the financial statements (Notes 6 and 8) for more detailed schedules and descriptions of long-term debt and swap activity.

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

In December 2006, Governor Ed Rendell announced his intention to seek expressions of interest for a possible sale or lease of the Pennsylvania Turnpike system in order to obtain funds for highway, bridge and transit programs throughout the Commonwealth of Pennsylvania. The Commonwealth hired several firms to perform work related to a possible sale or lease of the Pennsylvania Turnpike; however, the state legislature did not support the plan and alternative proposals were considered. In July 2007, House Bill 1590, titled Act 44 of 2007, was passed by the state legislature and signed by Governor Rendell. The provisions of Act 44 require the Turnpike Commission to enter into a 50-year lease agreement with the Pennsylvania Department of Transportation (PennDOT) for the conversion of Interstate 80 to a toll facility and for the Commission to provide annual payments to PennDOT. The Commission's payments to PennDOT for the fiscal years ending May 31, 2008, 2009, and 2010 will be \$750 million, \$850 million, and \$900 million, respectively. Beginning in 2011, the Turnpike Commission's contribution to PennDOT increases by 2.5% annually. The Commission will issue bonds and beginning in 2009, will raise tolls as necessary to provide the funds required to meet the annual obligations.

# Pennsylvania Turnpike Commission

## Balance Sheets

*(In Thousands)*

	May 31	
	2007	2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 232,618	\$ 340,835
Short-term investments	359,045	335,475
Accounts receivable	36,454	33,558
Accrued interest receivable	10,068	6,561
Inventories	16,679	18,324
Total current assets	654,864	734,753
Noncurrent assets:		
Long-term investments	544,855	447,092
Capital assets:		
Land	174,661	156,816
Buildings	666,087	651,848
Improvements other than buildings	58,831	56,604
Equipment	319,524	305,176
Infrastructure	4,362,098	4,129,467
Construction in progress	1,194,364	875,755
	6,775,565	6,175,666
Less accumulated depreciation	3,344,628	3,153,372
	3,430,937	3,022,294
Other assets:		
Other assets	385	383
Deferred bond issuance costs	25,905	23,426
Total other assets	26,290	23,809
Total noncurrent assets	4,002,082	3,493,195
Total assets	\$ 4,656,946	\$ 4,227,948

	May 31	
	2007	2006
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 154,878	\$ 131,729
Current portion of bonds payable	52,645	52,660
Unearned income	22,845	19,453
Total current liabilities	<u>230,368</u>	<u>203,842</u>
Noncurrent liabilities:		
Bonds payable, less current portion, net of unamortized premium of \$49,005 and \$34,957 in 2007 and 2006, respectively, and net of unamortized refunding loss of \$73,622 and \$66,204 in 2007 and 2006, respectively	2,631,488	2,326,703
Other noncurrent liabilities	34,942	30,486
Total noncurrent liabilities	<u>2,666,430</u>	<u>2,357,189</u>
Total liabilities	<u>2,896,798</u>	<u>2,561,031</u>
Net assets:		
Invested in capital assets, net of related debt	772,709	666,356
Restricted for certain construction and maintenance purposes	731,995	830,412
Unrestricted	255,444	170,149
Total net assets	<u>1,760,148</u>	<u>1,666,917</u>
Total liabilities and net assets	<u><u>\$ 4,656,946</u></u>	<u><u>\$ 4,227,948</u></u>

*See accompanying notes.*

Pennsylvania Turnpike Commission

Statements of Revenues, Expenses, and Changes in Net Assets

(In Thousands)

	<b>Year Ended May 31</b>	
	<b>2007</b>	<b>2006</b>
Operating revenues:		
Fares – net of discounts of \$24,975 and \$18,771 for the years ended May 31, 2007 and 2006, respectively	<b>\$ 592,641</b>	\$ 588,637
Other	<b>15,803</b>	20,971
	<b>608,444</b>	609,608
Operating expenses:		
Cost of services	<b>369,855</b>	362,618
Depreciation	<b>198,414</b>	214,885
	<b>568,269</b>	577,503
Operating income	<b>40,175</b>	32,105
Nonoperating revenues (expenses):		
Oil company franchise tax revenues	<b>67,071</b>	55,749
Motor license registration fee revenue	<b>28,000</b>	28,000
Investment earnings	<b>67,689</b>	60,506
Other nonoperating revenues	<b>1,405</b>	1,789
Interest and bond expenses	<b>(135,415)</b>	(127,565)
	<b>28,750</b>	18,479
Change in net assets before capital contributions	<b>68,925</b>	50,584
Capital contributions	<b>24,306</b>	23,030
Change in net assets	<b>93,231</b>	73,614
Net assets at beginning of year	<b>1,666,917</b>	1,593,303
Net assets at end of year	<b>\$ 1,760,148</b>	\$ 1,666,917

*See accompanying notes.*



Pennsylvania Turnpike Commission

Statements of Cash Flows

	<b>Year Ended May 31</b>	
	<b>2007</b>	<b>2006</b>
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Cash received from customer tolls and deposits	\$ 670,787	\$ 663,058
Cash payments for goods and services	(261,018)	(246,022)
Cash payments to employees	(159,493)	(153,889)
Cash received from other operating activities	12,321	14,468
Net cash provided by operating activities	<u>262,597</u>	<u>277,615</u>
<b>Investing activities</b>		
Proceeds from sales and maturities of investments	615,114	837,724
Interest received on investments	54,650	64,262
Purchases of investments	(726,923)	(643,425)
Net cash (used in) provided by investing activities	<u>(57,159)</u>	<u>258,561</u>
<b>Capital and related financing activities</b>		
Capital grants received	17,203	15,878
Construction and acquisition of capital assets	(601,790)	(426,220)
Proceeds from sale of capital assets	1,422	2,019
Payments for bond expenses	(4,492)	(4,708)
Payments for redemption of revenue bonds	(306,774)	(531,594)
Interest paid on bonds	(121,952)	(117,687)
Proceeds from new bonds	607,853	487,790
Net cash used in capital and related financing activities	<u>(408,530)</u>	<u>(574,522)</u>
<b>Noncapital financing activities</b>		
Cash proceeds from motor license grant	28,000	28,000
Cash proceeds from oil company franchise tax	66,875	55,736
Net cash provided by noncapital financing activities	<u>94,875</u>	<u>83,736</u>
(Decrease) increase in cash and cash equivalents	<u>(108,217)</u>	<u>45,390</u>
Cash and cash equivalents at beginning of year	<u>340,835</u>	<u>295,445</u>
Cash and cash equivalents at end of year	<u><u>\$ 232,618</u></u>	<u><u>\$ 340,835</u></u>

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

Pennsylvania Turnpike Commission

Statements of Cash Flows (continued)

	<b>Year Ended May 31</b>	
	<b>2007</b>	<b>2006</b>
	<i>(In Thousands)</i>	
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	<b>\$ 40,175</b>	\$ 32,105
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	<b>198,414</b>	214,885
Change in operating assets and liabilities:		
Accounts receivable	<b>(1,314)</b>	(1,817)
Inventories	<b>1,645</b>	(1,360)
Other assets	<b>(2)</b>	(225)
Accounts payable and accrued liabilities	<b>22,123</b>	22,127
Other noncurrent liabilities	<b>1,556</b>	11,900
Net cash provided by operating activities	<b>\$ 262,597</b>	\$ 277,615

**Noncash Activities**

The Commission recorded an increase of \$9.3 million and a decrease of \$5.4 million in the fair value of its investments for the years ended May 31, 2007 and 2006, respectively.

*See accompanying notes.*

# Pennsylvania Turnpike Commission

## Notes to Financial Statements

May 31, 2007

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

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

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

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

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

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

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

#### **Basis of Accounting**

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

#### **Cash Equivalents**

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

# Pennsylvania Turnpike Commission

## Notes to Financial Statements (continued)

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

#### Investments

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

#### Capital Assets

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

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

#### Inventories

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

#### Bond Premium/Discount and Issuance Costs

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

#### Unearned Income

E-ZPass customers of the Turnpike Commission are required to deposit funds in advance of anticipated travel. Since this money is collected prior to the customers' travel and revenue recognition, it is recorded as unearned income. Unearned income related to E-ZPass customers was \$22.8 million and \$19.5 million for the years ended May 31, 2007 and 2006, respectively.

# Pennsylvania Turnpike Commission

## Notes to Financial Statements (continued)

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

#### **Operating Revenues**

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

#### **Fare Revenues**

Fare revenues are recognized when vehicles exit the Turnpike System. As of May 31, 2007 and 2006, approximately 56.1% and 51.2%, respectively, of the fare revenues were realized through electronic toll collection; the remainder was realized through cash collection or a credit card program for commercial vehicles.

#### **Operating Expenses**

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

#### **Cost of Services**

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

#### **Utilization of Resources**

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

#### **Nonoperating Revenues**

Nonoperating revenues include: Oil Company Franchise Tax revenues, Motor License Registration Fee revenues, investment earnings, and other miscellaneous revenues not associated with the operations of the toll road.

# Pennsylvania Turnpike Commission

## Notes to Financial Statements (continued)

### 2. Summary of Significant 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 and totaled \$67.1 million and \$55.7 million for the fiscal years ended May 31, 2007 and 2006, respectively. These revenues are kept in a separate fund as required by the applicable bond indenture. This fund's assets equaled \$666.0 million and \$679.4 million as of May 31, 2007 and 2006, respectively, and consisted essentially of cash and investments.

#### Motor License Registration Fee Revenues

The Commission received \$28.0 million in grants during each of the fiscal years ended May 31, 2007 and 2006 from the Commonwealth's Motor License Fund. The revenue from these grants has been recorded as nonoperating revenue. The Commission has elected to account for this grant in a separate fund. This fund's assets totaled \$247.0 million and \$424.2 million as of May 31, 2007 and 2006, respectively.

#### Capital Contributions

The Commission receives grants from other governments for reimbursement of costs for various highway construction projects. During the years ended May 31, 2007 and 2006, the Commission received \$18.6 million and \$20.7 million, respectively, in reimbursements from federal and state governments.

The Commission has entered into contracts with the operators of service plaza restaurants and service stations to totally reconstruct several service plazas. The service plaza operators provide the capital for the reconstruction in exchange for lower rental rates. The Commission assumes ownership of the reconstructed assets upon completion and records the assets as capital contributions. For the year ended May 31, 2007, the Commission received assets with total fair values of \$5.7 million.

The Commission received donations of land from various sources to assist in the construction of a portion of the Southern Beltway known as the Findlay Connector. The donated land was recorded as capital contributions. For the year ended May 31, 2006, the Commission received donated land with total fair values of \$2.3 million.

# Pennsylvania Turnpike Commission

## Notes to Financial Statements (continued)

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

#### **Derivatives**

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

#### **Reclassifications**

Certain prior year amounts were reclassified to conform to the current year presentation.

### **3. Indenture Requirements and Restrictions**

The Commission's revenue bonds have been issued under the provisions of a Trust Indenture, dated July 1, 1986, which was amended and restated as of March 1, 2001; a Trust Indenture dated August 1, 1998 (1998 Indenture); a Trust Indenture dated July 1, 2001, which was defeased in August 2005; and a Trust Indenture dated July 1, 2005 (collectively referred to as the Indentures) between the Commission and the Trustee (U.S. Bank Corp., successor to Wachovia Bank). Accordingly, certain activities of the Commission are restricted by the Indentures.

The Commission is required to maintain certain accounts with the Trustee as specified by the Indentures. Funds maintained in such accounts are restricted to use for construction, Turnpike System maintenance and operation, and debt service. Unrestricted funds of \$255.4 million and \$170.1 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, 2007 and 2006, respectively. See Notes 4 and 6 for additional disclosures.

### **4. Cash and Investments**

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

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

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

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

	<b>Total Bank Balance</b>	<b>Total Book Balance</b>
	<i>(In Thousands)</i>	
<b>May 31, 2007</b>		
Demand deposits	<b>\$ 140,531</b>	<b>\$ 130,469</b>
<b>May 31, 2006</b>		
Demand deposits	<b>\$ 204,664</b>	<b>\$ 192,831</b>

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

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



## Pennsylvania Turnpike Commission

### Notes to Financial Statements (continued)

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

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

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

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

#### Credit Risk

The Commission's exposure to credit risk as of May 31, 2007 is as follows:

Debt Investments	Fair Value	Quality Ratings			
		AAA	AA	A-1	*Unrated
<i>(In Thousands)</i>					
Government agency securities	\$ 691,580	\$ 578,628	\$ –	\$ –	\$ 112,952
Corporate obligations	98,079	14,904	19,964	63,211	–
Municipal bonds	20,956	20,956	–	–	–
Guaranteed investment contracts	16,827	–	–	–	16,827

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

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

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

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

**Concentration of Credit Risk**

As of May 31, 2007, the Commission had investments of more than 5% of its consolidated portfolio with the following issuers:

<b>Issuer</b>	<b>Total Investments</b>	<b>Percent of Total</b>
	<i>(In Thousands)</i>	
Federal National Mortgage Association	\$ 266,165	26.46%
Federal Home Loan Bank	234,448	23.30%
Federal Home Loan Mortgage Corporation	159,348	15.84%

**Interest Rate Risk**

On May 31, 2007, the effective duration of the Commission's investments, by type, was as follows:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Effective Duration (Years)</b>
	<i>(In Thousands)</i>	
U.S. Treasuries and GNMA mortgages	\$ 76,458	1.414
Government agency security	691,580	1.228
Repurchase agreements	102,149	0.000
Municipal bonds	20,956	6.655
Guaranteed investment contracts	16,827	0.481
Corporate obligations	98,079	0.543
Total investment securities and cash equivalents	<u>\$ 1,006,049</u>	1.152

In previous years, the Commission reported interest rate risk using the weighted average maturity method. The change to effective duration for fiscal year 2007 was made to be consistent with the Commonwealth of Pennsylvania's reporting method.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

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

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

	May 31	
	2007	2006
	<i>(In Thousands)</i>	
U.S. Treasuries and GNMA Mortgages	\$ 76,458	\$ 97,872
Government agency securities	691,580	552,956
Municipal bonds	20,956	20,692
Corporate obligations	98,079	94,382
Repurchase agreements	102,149	148,004
Guaranteed investment contracts	16,827	16,665
Total investment securities and cash equivalents	<u>1,006,049</u>	<u>930,571</u>
Demand deposits	130,469	192,831
Total cash and cash equivalents and investments	<u>\$ 1,136,518</u>	<u>\$ 1,123,402</u>

**5. Capital Assets**

A summary of changes to capital assets for the years ended May 31, 2007 and 2006 is as follows:

	Balance June 1, 2006	Additions	Transfers	Retirements	Balance May 31, 2007
	<i>(In Thousands)</i>				
<b>Capitalized assets not being depreciated (cost)</b>					
Land	\$ 156,816	\$ 17,845	\$ -	\$ -	\$ 174,661
Construction in progress	875,755	572,861	(254,252)	-	1,194,364
Total capital assets not being depreciated	<u>1,032,571</u>	<u>590,706</u>	<u>(254,252)</u>	<u>-</u>	<u>1,369,025</u>
<b>Capitalized assets being depreciated (cost)</b>					
Buildings	651,848	4,818	10,709	1,288	666,087
Improvements	56,604	1,567	660	-	58,831
Machinery and equipment	305,176	10,523	10,252	6,427	319,524
Infrastructure	4,129,467	-	232,631	-	4,362,098
Total capital assets being depreciated	<u>5,143,095</u>	<u>16,908</u>	<u>254,252</u>	<u>7,715</u>	<u>5,406,540</u>
Less accumulated depreciation for:					
Buildings	198,213	18,179	-	1,025	215,367
Improvements	39,222	2,421	-	-	41,643
Machinery and equipment	242,961	14,561	-	6,133	251,389
Infrastructure	2,672,976	163,253	-	-	2,836,229
Total accumulated depreciation	<u>3,153,372</u>	<u>198,414</u>	<u>-</u>	<u>7,158</u>	<u>3,344,628</u>
Total capital assets being depreciated, net	<u>1,989,723</u>	<u>(181,506)</u>	<u>254,252</u>	<u>557</u>	<u>2,061,912</u>
Total capital assets	<u>\$ 3,022,294</u>	<u>\$ 409,200</u>	<u>\$ -</u>	<u>\$ 557</u>	<u>\$ 3,430,937</u>

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

5. Capital Assets (continued)

	Balance June 1, 2005	Additions	Transfers	Retirements	Balance May 31, 2006
	<i>(In Thousands)</i>				
<b>Capitalized assets not being depreciated (cost)</b>					
Land	\$ 138,148	\$ 18,948	\$ -	\$ 280	\$ 156,816
Construction in progress	505,358	412,313	(41,916)	-	875,755
Total capital assets not being depreciated	643,506	431,261	(41,916)	280	1,032,571
<b>Capitalized assets being depreciated (cost)</b>					
Buildings	643,545	-	8,303	-	651,848
Improvements	54,547	-	2,057	-	56,604
Machinery and equipment	300,191	9,422	4,779	9,216	305,176
Infrastructure	4,109,222	-	26,777	6,532	4,129,467
Total capital assets being depreciated	5,107,505	9,422	41,916	15,748	5,143,095
Less accumulated depreciation for:					
Buildings	180,182	18,031	-	-	198,213
Improvements	36,794	2,428	-	-	39,222
Machinery and equipment	234,681	17,035	-	8,755	242,961
Infrastructure	2,495,585	177,391	-	-	2,672,976
Total accumulated depreciation	2,947,242	214,885	-	8,755	3,153,372
Total capital assets being depreciated, net	2,160,263	(205,463)	41,916	6,993	1,989,723
Total capital assets	<u>\$ 2,803,769</u>	<u>\$ 225,798</u>	<u>\$ -</u>	<u>\$ 7,273</u>	<u>\$ 3,022,294</u>

For the fiscal years ended May 31, 2007 and 2006, the Commission incurred interest costs of \$22.5 million and \$15.4 million, respectively, which qualified for capitalization. These costs were offset by an approximately equal amount of interest income resulting in a net capitalization of zero for both fiscal years.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

**6. Bonds Payable**

Bonds payable consist of the following:

	<b>May 31</b>	
	<b>2007</b>	<b>2006</b>
	<i>(In Thousands)</i>	
<b>Revenue bonds payable</b>		
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	176,080	191,190
2001 Series T: Issued \$86,660 in September 2001 at 4.13% to 5.50%, due in varying installments through December 1, 2013	77,825	80,200
2001 Series U: Issued \$169,820 in September 2001 at a variable rate, due in varying installments through December 1, 2019	169,820	169,820
2002 Series A: Issued \$288,265 in September 2002 at a variable rate, due in varying installments through December 1, 2030	288,265	288,265
2002 Series B: Issued \$160,880 in September 2002 at a variable rate, due in varying installments through December 1, 2012	85,565	102,380
2004 Series A: Issued \$269,245 in June 2004 at 5.00% to 5.50%, due in varying installments through December 1, 2034	269,245	269,245
2006 Series A: Issued \$118,015 in June 2006 at 5.00%, due in varying installments through December 1, 2026	118,015	-
2006 Series B: Issued \$117,925 in June 2006 at a variable rate, due in varying installments through December 1, 2022	115,715	-
2006 Series C: Issued \$117,925 in June 2006 at a variable rate, due in varying installments through December 1, 2022	115,715	-
Total revenue bonds payable	<u>1,655,270</u>	<u>1,340,125</u>

# Pennsylvania Turnpike Commission

## Notes to Financial Statements (continued)

### 6. Bonds Payable (continued)

	May 31	
	2007	2006
	<i>(In Thousands)</i>	
<b>Tax revenue bonds payable</b>		
1998 Series A Oil Company Franchise Tax Revenue: Issued \$310,475 in August 1998 at 3.85% to 5.50%, partially defeased in July 2003 and November 2006, due in varying installments through December 1, 2023	\$ 24,660	\$ 82,760
1998 Series B Oil Company Franchise Tax Revenue: Issued \$228,405 in August 1998 at 3.85% to 5.25%, partially defeased in July 2003 and November 2006, due in varying installments through December 1, 2027	32,280	62,915
2003 Series A Oil Company Franchise Tax Revenue: Issued \$124,730 in August 2003 at 2.50% to 5.25%, partially defeased in November 2006, due in varying installments through December 1, 2024	61,150	112,085
2003 Series B Oil Company Franchise Tax Revenue: Issued \$197,955 in August 2003 at 2.38% to 5.50%, partially defeased in November 2006, due in varying installments through December 1, 2032	76,180	187,165
2003 Series C Oil Company Franchise Tax Multi-Modal Revenue: Issued \$160,000 in August 2003 at a variable rate, due in varying installments through December 1, 2032	160,000	160,000
2006 Series A Oil Company Franchise Tax Revenue: Issued \$98,705 in November 2006 at 5.00%, due in varying installments through December 1, 2023	98,705	-
2006 Series B Oil Company Franchise Tax Revenue: Issued \$141,970 in November 2006 at 3.75% to 5.00%, due in varying installments through December 1, 2031	141,970	-
Total tax revenue bonds payable	594,945	604,925
<b>Registration fee revenue bonds payable</b>		
2005 Series A: Issued \$234,135 in August 2005 at 3.25% to 5.25%, due in varying installments through July 15, 2030	227,110	234,135
2005 Series B, C, and D: Issued \$231,425 in August 2005 at a variable rate, due in varying installments through July 15, 2041	231,425	231,425
Total registration fee revenue bonds payable	458,535	465,560
	2,708,750	2,410,610
Unamortized premium	49,005	34,957
Unamortized deferred loss on advanced refundings	(73,622)	(66,204)
	2,684,133	2,379,363
Less current portion	52,645	52,660
	\$ 2,631,488	\$ 2,326,703

# Pennsylvania Turnpike Commission

## Notes to Financial Statements (continued)

### 6. Bonds Payable (continued)

As disclosed in Note 3, the Commission's Trust Indentures impose certain restrictions and requirements. The Amended and Restated Trust Indenture of 2001 requires that tolls be adequate to provide funds to cover current expenses and (1) provide funds in an amount not less than the greater of 130% of the maximum principal and interest requirements for the succeeding year, or (2) 100% of the maximum principal and interest payments for the next fiscal year plus the amount required for maintenance of the Turnpike System as determined by the Commission's Consulting Engineer. If any deficiencies occur, the Commission is authorized to raise tolls appropriately.

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

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

Pursuant to Section 20 of Act 3, the Commonwealth appropriates \$28,000,000 of Act 3 revenues to the Commission annually. The \$28,000,000 is payable to the Commission in the amount of \$2,333,333 per month. The Registration Fee Revenue Bonds are secured by a pledge and assignment by the Commission to the Trustee of any receipts, revenues and other moneys received by the Trustee on or after the date of the Indenture from the Commission's allocation of Act 3 revenues and any income earned on any fund or account established pursuant to the Indenture.

## Pennsylvania Turnpike Commission

### Notes to Financial Statements (continued)

#### 6. Bonds Payable (continued)

Changes in bonds payable are as follows:

	Balance at June 1, 2006	Additions	Reductions	Balance at May 31, 2007	Due Within One Year
	<i>(In Thousands)</i>				
Revenue bonds payable	\$ 1,340,125	\$ 353,865	\$ 38,720	\$ 1,655,270	\$ 35,970
Tax revenue bonds payable	604,925	240,675	250,655	594,945	11,345
Registration fee bonds payable	465,560	-	7,025	458,535	5,330
	<u>2,410,610</u>	<u>594,540</u>	<u>296,400</u>	<u>2,708,750</u>	<u>52,645</u>
Bond premium (discount)	34,957	17,668	3,620	49,005	-
Deferred loss on advanced refundings	(66,204)	(12,082)	(4,664)	(73,622)	-
	<u>\$ 2,379,363</u>	<u>\$ 600,126</u>	<u>\$ 295,356</u>	<u>\$ 2,684,133</u>	<u>\$ 52,645</u>

	Balance at June 1, 2005	Additions	Reductions	Balance at May 31, 2006	Due Within One Year
	<i>(In Thousands)</i>				
Revenue bonds payable	\$ 1,372,810	\$ -	\$ 32,685	\$ 1,340,125	\$ 34,300
Tax revenue bonds payable	615,885	-	10,960	604,925	11,335
Registration fee bonds payable	463,265	465,560	463,265	465,560	7,025
	<u>2,451,960</u>	<u>465,560</u>	<u>506,910</u>	<u>2,410,610</u>	<u>52,660</u>
Bond premium (discount)	4,499	25,897	(4,561)	34,957	-
Deferred loss on advanced refunding	(36,860)	(33,525)	(4,181)	(66,204)	-
	<u>\$ 2,419,599</u>	<u>\$ 457,932</u>	<u>\$ 498,168</u>	<u>\$ 2,379,363</u>	<u>\$ 52,660</u>

The issuance of new bonds is conducted in accordance with the terms of the applicable trust indenture and approval of the Commissioners.

In June 2006, the Commission issued Series A, B, and C of 2006 Revenue Bonds in the total amount of \$353,865,000. These bonds were issued primarily to finance the cost of funding various capital expenditures as set forth in the Commission's Ten-Year Capital Plan. The Series A bonds are fixed-rate bonds and were issued in the amount of \$118,015,000. Series B and C are variable-rate bonds and were issued in the amount of \$117,925,000 each.

In November 2006, the Commission issued Oil Franchise Tax Series A and B Revenue Refunding Bonds in the total amount of \$240,675,000. The bonds were issued to partially defease Series A and B of 1998 and Series A and B of 2003 Oil Company Franchise Tax Revenue Bonds. The reacquisition price exceeded the net carrying amount of the Series A bonds by \$3,612,073 and the Series B bonds by \$8,470,009. These amounts will be amortized over the life of the new bonds. This advance refunding was undertaken to reduce total debt service



# Pennsylvania Turnpike Commission

## Notes to Financial Statements (continued)

### 6. Bonds Payable (continued)

payments over the next 26 years by \$22,738,563 and resulted in an economic gain of \$7,266,799. The 2006 Series A and B are fixed rate bonds and were issued in the amounts of \$98,705,000 and \$141,970,000, respectively.

In August 2005, the Commission issued Series A, B, C, and D of 2005 Registration Fee Revenue Bonds in the total amount of \$465,560,000. The 2005 Series bonds were issued primarily to defease the Commission's Series 2001 Registration Fee Revenue Bonds. The reacquisition price exceeded the net carrying amount of the Series 2001 Registration Fee Revenue Bonds by \$33,525,347. This amount is being amortized over the life of the 2005 Series bonds. This advance refunding was undertaken to reduce total debt service payments over the next 35 years by \$33,561,245 and resulted in an economic gain of \$19,967,984. The Series A bonds are fixed-rate bonds and were issued in the amount of \$234,135,000. Series B, C, and D are variable-rate bonds and were issued in the amounts of \$77,140,000, \$77,140,000, and \$77,145,000, respectively.

In prior years as well as the current year, the Commission defeased certain revenue bonds by placing funds in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds were not included in the Commission's financial statements. At May 31, 2007 and 2006, the Commission had \$1,085.5 million and \$862.2 million, respectively, of defeased bonds outstanding.

Debt service requirements subsequent to May 31, 2007 are as follows:

Year Ending May 31	Principal Maturities	Interest	Total
		<i>(In Thousands)</i>	
2008	\$ 52,645	\$ 120,453	\$ 173,098
2009	68,205	117,239	185,444
2010	71,265	114,481	185,746
2011	74,550	111,484	186,034
2012	77,975	108,112	186,087
2013 – 2017	453,465	480,031	933,496
2018 – 2022	438,800	382,020	820,820
2023 – 2027	520,435	279,362	799,797
2028 – 2032	507,010	160,871	667,881
2033 – 2037	325,415	52,246	377,661
2038 – 2042	118,985	11,503	130,488
	\$ 2,708,750	\$ 1,937,802	\$ 4,646,552

## Pennsylvania Turnpike Commission

### Notes to Financial Statements (continued)

#### 6. Bonds Payable (continued)

Interest on the following bonds: 2001 Series R, 2001 Series S, 2001 Series T, 2004 Series A, 2006 Series A, 1998 Series A and B Oil Company Franchise Tax Revenue, 2003 Series A and B Oil Company Franchise Tax Revenue, and 2006 Series A and B Oil Company Franchise Tax Revenue Refunding Bonds is payable semiannually on June 1 and December 1 of each year. Interest on the 1998 Series Q Revenue Bonds, Series U Revenue Bonds, 2002 Series A and B Revenue Bonds, and 2006 Series B and C is payable the first of every month. Interest on the 2003 Series C Oil Company Franchise Tax Revenue bonds is payable every seven days for Subseries C-1 and C-2 and every 35 days for Subseries C-3 and C-4. Interest on the 2005 Series A Registration Fee Revenue Bonds is payable semiannually on January 15 and July 15 of each year. Interest on the 2005 Series B, C, and D Registration Fee Revenue Bonds is payable on the 15<sup>th</sup> of every month.

Debt service requirements subsequent to May 31, 2007 related to the 1998 Series A and B Oil Company Franchise Tax Revenue Bonds, the 2003 Series A, B, and C Oil Company Franchise Tax Revenue Bonds, and the 2006 Series A and B Oil Company Franchise Tax Revenue Refunding Bonds only are as follows:

Year Ending May 31	Principal Maturities	Interest	Total
<i>(In Thousands)</i>			
2008	\$ 11,345	\$ 27,353	\$ 38,698
2009	12,560	26,157	38,717
2010	13,075	25,641	38,716
2011	13,685	25,100	38,785
2012	14,340	24,471	38,811
2013 – 2017	82,715	111,700	194,415
2018 – 2022	105,420	89,645	195,065
2023 – 2027	134,760	60,368	195,128
2028 – 2032	168,330	27,521	195,851
2033 – 2037	38,715	1,195	39,910
	\$ 594,945	\$ 419,151	\$ 1,014,096

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

**6. Bonds Payable (continued)**

Debt service requirements subsequent to May 31, 2007 related to the 2005 Registration Fee Revenue Bonds only are as follows:

<b>Year Ending May 31</b>	<b>Principal Maturities</b>	<b>Interest</b>	<b>Total</b>
	<i>(In Thousands)</i>		
2008	\$ 5,330	\$ 19,988	\$ 25,318
2009	5,500	19,812	25,312
2010	5,685	19,624	25,309
2011	5,880	19,418	25,298
2012	6,095	19,159	25,254
2013 – 2017	35,350	90,775	126,125
2018 – 2022	45,460	80,374	125,834
2023 – 2027	58,720	66,771	125,491
2028 – 2032	75,850	49,327	125,177
2033 – 2037	95,680	31,480	127,160
2038 – 2042	118,985	11,503	130,488
	<u>\$ 458,535</u>	<u>\$ 428,231</u>	<u>\$ 886,766</u>

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

6. Bonds Payable (continued)

Swap Payments and Associated Debt

Net swap payments and related debt service requirements subsequent to May 31, 2007, assuming current interest rates remain the same for their term are as follows:

Year Ending May 31	Variable-Rate Bonds		Fixed	Total
	Principal Maturities	Interest	Interest Rate Swaps, Net	
<i>(In Thousands)</i>				
2008	\$ 17,625	\$ 34,835	\$ 5,305	\$ 57,765
2009	18,470	34,156	5,184	57,810
2010	13,740	33,550	5,076	52,366
2011	11,515	33,076	4,992	49,583
2012	11,845	32,637	4,914	49,396
2013 – 2017	127,505	154,385	23,007	304,897
2018 – 2022	151,695	120,333	16,559	288,587
2023 – 2027	139,015	98,527	12,157	249,699
2028 – 2032	206,725	63,858	6,599	277,182
2033 – 2037	117,955	31,894	2,909	152,758
2038 – 2042	118,985	11,503	1,051	131,539
	<u>\$ 935,075</u>	<u>\$ 648,754</u>	<u>\$ 87,753</u>	<u>\$ 1,671,582</u>

Year Ending May 31	Fixed-Rate Bonds		Variable	Total
	Principal Maturities	Interest	Interest Rate Swaps, Net	
<i>(In Thousands)</i>				
2008	\$ –	\$ 5,901	\$ (361)	\$ 5,540
2009	–	5,901	(361)	5,540
2010	–	5,901	(361)	5,540
2011	–	5,901	(361)	5,540
2012	–	5,901	(361)	5,540
2013 – 2017	–	29,504	(1,806)	27,698
2018 – 2022	–	29,504	(1,806)	27,698
2023 – 2027	118,015	18,432	(947)	135,500
	<u>\$ 118,015</u>	<u>\$ 106,945</u>	<u>\$(6,364)</u>	<u>\$ 218,596</u>

# Pennsylvania Turnpike Commission

## Notes to Financial Statements (continued)

### **6. Bonds Payable (continued)**

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

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

### **7. Retirement Benefits**

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

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

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

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

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

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

**7. Retirement Benefits (continued)**

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

<u>Year Ended May 31</u>	<u>Commission Required Contribution</u>	<u>% Contributed</u>
	<i>(In Millions)</i>	
2007	\$ 3.3	100%
2006	\$ 2.5	100%
2005	\$ 1.4	100%
2004	\$ .5	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.

**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.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

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

**Construction Commitments**

At May 31, 2007, the Commission had contractual commitments for various Turnpike System improvement projects. A summary of construction commitments and their related funding source at May 31, 2007 is as follows:

	<b>Projected Funding Requirements</b>	<b>Contracts Awarded Through May 31, 2007</b>	<b>Incurred Through May 31, 2007</b>
	<i>(In Thousands)</i>		
Mon/Fayette Expressway and Southern Beltway expansion projects	\$ 439,780	\$ 623,707	\$ 335,384
All other construction projects	4,661,046	1,531,409	753,368
	<u>\$ 5,100,826</u>	<u>\$ 2,155,116</u>	<u>\$ 1,088,752</u>

The Mon/Fayette Expressway and Southern Beltway expansion projects are funded by the Registration Fee Revenue Bonds and Oil Company Franchise Tax Revenue Bonds. All other construction projects are funded by operating revenues and various Revenue bonds.

**Interest Rate Swaps**

In June 2006, the Commission entered into a fixed-to-variable swap agreement with a counterparty with respect to Series A of the 2006 Revenue Bonds. The purpose of this agreement was to provide an overall cost savings for the Commission. The total notional amount of the swap is \$118,015,000.

The Commission entered into constant-maturity swap agreements in both August and September 2006 to benefit from expected changes in the 10-year LIBOR versus the one-month LIBOR yield curves. The August agreements were with four different swap providers (counterparties) with respect to the Series U of 2001 and Series A of 2002 Revenue bonds and had a total notional value of \$458,085,000. The September agreements were with two different swap providers and were placed with respect to the Series C of 2003 Oil Company Franchise Tax Multi-Modal Revenue bonds; the total notional value of the two agreements is \$160,000,000.

# Pennsylvania Turnpike Commission

## Notes to Financial Statements (continued)

### 8. Commitments and Contingencies (continued)

#### Interest Rate Swaps (continued)

In August 2004, the Commission entered into three forward starting interest rate swap agreements with three different swap providers (counterparties). These swaps were placed on future turnpike revenue bonds to be issued in June 2006, for a total notional amount of \$240 million. The Commission, however, has subsequently decided not to use the 2004 Swap Agreements as a hedge with respect to the June 2006 bonds. Therefore, in May 2006, the Commission entered into amended forward starting interest rate swap agreements (2006 agreements) with the same three counterparties.

The 2006 agreements were issued as an anticipatory hedge for the projected June 2008 issuance of Series A of 2008 Mainline Revenue Bonds. The notional amount of each swap agreement was increased to \$100 million, for a combined total of \$300 million. Each swap was priced to provide a credit from the counterparties to the Commission in the amount of \$3.473 million, for a combined credit of \$10.419 million, in lieu of a termination payment due from the Commission. The Commission has agreed to pay a fixed interest rate of 4.887% to the three swap counterparties; this rate would have been approximately 4.6% had the above-mentioned credits not been incorporated into the swap agreements.

In August 2005, the Commission entered into four interest rate 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 Registration Fee Revenue Refunding Bonds, Series B, Series C, and Series D of 2005 with four 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 \$231 million at May 31, 2006. The \$231 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.

The Commission has an interest rate swap management policy that establishes guidelines for the use and management of all interest rate management agreements. The policy sets forth the manner of execution of swaps and agreements; and provides for security and payment provisions, risk considerations, and certain other relevant provisions.



Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

8. Commitments and Contingencies (continued)

Interest Rate Swaps (continued)

Following is a summary of the swaps in place as of May 31, 2007. These swap agreements contain certain risks as described below.

Associated Debt	Notional Value	Final Maturity	Receivable		Payable		Fair Value (to) from Counterparty
			Floating Rate Index <sup>(1)</sup>	Fixed Rate	Floating Rate Index <sup>(1)</sup>	Fixed Rate	
Series U 2001	\$ 127,365,000 42,455,000	12/01/2019 12/01/2019	67.00% of 1-month LIBOR			4.21%	\$ (6,337,415) (2,112,755)
Series A 2002	72,066,250 144,070,000 72,066,250	12/01/2030 12/01/2030 12/01/2030	67.00% of 1-month LIBOR			4.40%	(6,086,624) (12,167,485) (6,086,624)
Series U 2001 and A 2002 Constant maturity	107,784,000 107,784,000 107,784,000 134,733,000	12/01/2030 12/01/2030 12/01/2030 12/01/2030	60.08% of 10-year LIBOR		67.00% of 1-month LIBOR		(1,069,508) (1,069,508) (1,069,508) (1,336,895)
Series B 2002	21,391,250 42,782,500 21,391,250	12/01/2012 12/01/2012 12/01/2012	BMA			4.54%	(477,628) (954,678) (477,674)
Series C 2003	48,000,000 112,000,000	12/01/2032 12/01/2032	63.00% of 1-month LIBOR plus 20 basis points			3.84%	(1,212,324) (2,822,378)
Series C 2003 Constant maturity	80,000,000 80,000,000	11/15/2032 11/15/2032	60.15% of 10-year LIBOR		67.00% of 1-month LIBOR		(979,164) (979,164)
Series 2005	57,860,000 57,845,000 57,860,000 57,860,000	07/15/2041	BMA			4.20%	(450,438) (451,787) (450,438) (450,438)
Series A 2006	118,015,000	12/01/2026		4.19%	BMA		1,941,191
Series 2008 Forward starting	100,000,000 100,000,000 100,000,000	12/01/2038	BMA			4.89%	(9,292,902) (9,291,997) (9,292,899)
	<u>\$ 1,971,112,500</u>						<u>\$(72,979,040)</u>

<sup>(1)</sup> 1-month LIBOR was 5.32% at May 31, 2007.  
10-year LIBOR was 5.4565% at May 31, 2007.  
BMA was 3.76% at May 31, 2007.

# Pennsylvania Turnpike Commission

## Notes to Financial Statements (continued)

### 8. Commitments and Contingencies (continued)

#### Interest Rate Swaps (continued)

- **Credit Risk** – The Commission is exposed to credit risk for swaps that have positive fair values. As of May 31, 2007, the Commission's credit risk exposure is limited to the Series A 2006 swaps. However, should interest rates change and the fair values of the other swaps become positive, the Commission would have additional credit risk exposure. The Commission had ten counterparties at May 31, 2007. The credit ratings of the swap providers as of May 31, 2007 were AAA to A+ and Aaa to A1 by Standard & Poor's and Moody's, respectively. 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.
- **Interest Rate Risk** – The Commission is exposed to variable interest rates with respect to the fixed-to-variable swap agreement associated with the Series A of 2006 Revenue Bonds. Additionally, the Commission will be exposed to variable interest rates if one or more of the swap providers for the variable-to-fixed swap agreement defaults or if a variable-to-fixed swap is terminated.
- **Basis Risk** – The underlying variable rates for the Commission's Series U and Series A bonds are based on Bond Market Association (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. The underlying variable rates for the Commission's 2003 Series C bonds are based on auction rates. The auction rates approximate BMA. The Series C swaps, with a combined notional value of \$160 million, are based on a percentage of LIBOR plus 20 basis points. Therefore, the Commission is exposed to basis risk to the extent auction rates exceed 63% of one-month LIBOR plus 20 basis points.

The Commission is also exposed to basis risk related to the constant maturity swap agreements. The exposure for the agreements associated with the Series U of 2001 and Series A of 2002 Revenue Bonds is to the extent 67% of one-month LIBOR exceeds 60.08% of 10-year LIBOR while the exposure for the agreements associated with the Series C of 2003 Oil Company Franchise Tax Multi-Modal Revenue Bonds is to the extent 67% of one-month LIBOR exceeds 60.15% of 10-year LIBOR.

# Pennsylvania Turnpike Commission

## Notes to Financial Statements (continued)

### 8. Commitments and Contingencies (continued)

#### Interest Rate Swaps (continued)

- **Termination Risk** – The swap agreements may be terminated due to a number of circumstances and the Commission retains the option to terminate the swaps at any time. If a swap agreement is terminated (by either party), the respective variable-rate bond would no longer carry a synthetic fixed interest rate. Also, if at the time of termination, the swap had a negative fair value, the Commission would be liable to the swap counterparty for a liability equal to the swap's fair value. It is the Commission's intent to maintain the swap transactions for the life of the financing.

### 9. Related Party Transactions

The Commission incurred costs of \$30.7 million and \$29.0 million related to its use of the Commonwealth's State Police in patrolling the Turnpike System in 2007 and 2006, respectively.

### 10. Postretirement Benefits

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

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

As of May 31, 2007, 811 retirees were eligible for such benefits. The Commission has elected to account for the postretirement benefits as expenses are incurred. The Commission's expense for postretirement benefits was \$5.9 million and \$5.5 million in 2007 and 2006, respectively.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pension*. This statement establishes standards for the measurement, recognition, and display of other postemployment benefit expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information (RSI) in financial reports of state and local government employers. The Commission is required to adopt GASB Statement No. 45 for its fiscal 2008 financial statements.

# Pennsylvania Turnpike Commission

## Notes to Financial Statements (continued)

### **11. Self-Insurance**

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

The Commission recorded a liability of \$12.8 million and \$13.5 million for loss and loss adjustment expenses on claims relating to self-insurance that have been incurred but not reported as of May 31, 2007 and 2006, respectively. This liability is based on GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be recorded if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability is calculated based on the Commission's past loss experience. The liability was discounted using a rate of 3.59% as of May 31, 2007 and 2006. 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, 2007 and 2006. The Commission believes the liability established is reasonable and appropriate to provide for settlement of losses and related loss adjustment expenses.

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

# Pennsylvania Turnpike Commission

## Notes to Financial Statements (continued)

### 11. Self-Insurance (continued)

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

	June 1, 2006 Liability	Effects of Discount as of June 1, 2006	Incurred Claims		Paid Claims		Effects of Discount as of May 31, 2007	May 31, 2007 Liability
			Current Year	Prior Years	Current Year	Prior Years		
<i>(In Thousands)</i>								
<b>Year ended May 31, 2007</b>								
Workers' compensation	\$ 7,225	\$ 2,021	\$ 1,334	\$ 1,930	\$ 739	\$ 2,207	\$ 2,023	\$ 7,541
Automobile/general tort	6,300	–	106	576	29	1,674	–	5,279
	<u>\$ 13,525</u>	<u>\$ 2,021</u>	<u>\$ 1,440</u>	<u>\$ 2,506</u>	<u>\$ 768</u>	<u>\$ 3,881</u>	<u>\$ 2,023</u>	<u>\$ 12,820</u>

	June 1, 2005 Liability	Effects of Discount as of June 1, 2005	Incurred Claims		Paid Claims		Effects of Discount as of May 31, 2006	May 31, 2006 Liability
			Current Year	Prior Years	Current Year	Prior Years		
<i>(In Thousands)</i>								
<b>Year ended May 31, 2006</b>								
Workers' compensation	\$ 7,583	\$ 2,297	\$ 1,922	\$ 618	\$ 603	\$ 2,571	\$ 2,021	\$ 7,225
Automobile/general tort	7,100	–	50	(318)	49	483	–	6,300
	<u>\$ 14,683</u>	<u>\$ 2,297</u>	<u>\$ 1,972</u>	<u>\$ 300</u>	<u>\$ 652</u>	<u>\$ 3,054</u>	<u>\$ 2,021</u>	<u>\$ 13,525</u>

The foregoing reflects an adjustment for a deficiency of \$2.5 million and \$0.3 million in May 31, 2007 and 2006, respectively, for prior years' incurred claims that resulted from a change in estimate as more information became available.

### 12. Compensated Absences

Sick leave is earned at a rate of 3.08 hours every two weeks, or ten days per year. Unused sick leave may be carried over from year to year up to a maximum of 18 days. In November of each year, employees are reimbursed for all accumulated unused sick leave above the maximum. Sick leave payouts were \$1,843,218 and \$1,719,780 in November 2006 and 2005, respectively.

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

## Pennsylvania Turnpike Commission

### Notes to Financial Statements (continued)

#### 12. Compensated Absences (continued)

Upon termination of employment, all unused sick and vacation leave is paid to the employee. A summary of changes to compensated absences for the years ended May 31, 2007 and 2006 is as follows:

Fiscal Year Ended May 31,	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>(In Thousands)</i>					
2007	\$ 15,002	\$ 10,545	\$ 9,200	\$ 16,347	\$ 9,001
2006	\$ 12,951	\$ 10,572	\$ 8,521	\$ 15,002	\$ 7,771

#### 13. 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's Oil Company Franchise Tax. This revenue is pledged against the associated 1998 Series A and B Oil Company Franchise Tax Revenue Bonds, the 2003 Series A, B, and C Oil Company Franchise Tax Revenue Bonds and the 2006 Series A and B Oil Company Franchise Tax Revenue Bonds.

The Motor License segment consists of an annual income of \$28 million which has been provided to the Commission pursuant to Section 20 of Act 3 of the Commonwealth of Pennsylvania. This income is pledged against the Registration Fee Revenue Bonds 2005 Series.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

13. Segment Information (continued)

Balance Sheet

	May 31, 2007			Total
	Mainline	Oil Franchise	Motor License	
<i>(In Thousands)</i>				
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 164,852	\$ 48,500	\$ 19,266	\$ 232,618
Short-term investments	143,294	151,430	64,321	359,045
Accounts receivable	30,893	5,561	–	36,454
Accrued interest receivable	4,585	4,318	1,165	10,068
Inventories	16,679	–	–	16,679
Total current assets	360,303	209,809	84,752	654,864
Noncurrent assets:				
Long-term investments	253,993	261,613	29,249	544,855
Capital assets:				
Land	174,661	–	–	174,661
Buildings	666,087	–	–	666,087
Improvements other than buildings	58,831	–	–	58,831
Equipment	319,524	–	–	319,524
Infrastructure	4,362,098	–	–	4,362,098
Construction in progress	878,657	187,580	128,127	1,194,364
	6,459,858	187,580	128,127	6,775,565
Less accumulated depreciation	3,344,628	–	–	3,344,628
	3,115,230	187,580	128,127	3,430,937
Other assets:				
Other assets	385	–	–	385
Deferred bond issuance costs	13,992	7,020	4,893	25,905
Total other assets	14,377	7,020	4,893	26,290
Total noncurrent assets	3,383,600	456,213	162,269	4,002,082
Total assets	\$ 3,743,903	\$ 666,022	\$ 247,021	\$ 4,656,946

Continued on the following page.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

13. Segment Information (continued)

Balance Sheet (continued)

	May 31, 2007			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Liabilities and net assets</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 124,554	\$ 24,731	\$ 5,593	\$ 154,878
Current portion of bonds payable	35,970	11,345	5,330	52,645
Unearned income	22,845	-	-	22,845
Total current liabilities	183,369	36,076	10,923	230,368
Noncurrent liabilities:				
Bonds payable, less current portion, net of unamortized premium/discount	1,600,151	585,370	445,967	2,631,488
Other noncurrent liabilities	34,740	202	-	34,942
Total noncurrent liabilities	1,634,891	585,572	445,967	2,666,430
Total liabilities	1,818,260	621,648	456,890	2,896,798
Net assets:				
Invested in capital assets, net of related debt	1,493,102	(402,117)	(318,276)	772,709
Restricted for certain construction and maintenance purposes	346,775	297,622	87,598	731,995
Unrestricted	85,766	148,869	20,809	255,444
Total net assets	1,925,643	44,374	(209,869)	1,760,148
Total liabilities and net assets	<u>\$ 3,743,903</u>	<u>\$ 666,022</u>	<u>\$ 247,021</u>	<u>\$ 4,656,946</u>



Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

13. Segment Information (continued)

Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended May 31, 2007			Total
	Mainline	Oil Franchise	Motor License	
	<i>(In Thousands)</i>			
Operating revenues:				
Net fares	\$ 592,641	\$ –	\$ –	\$ 592,641
Other	15,803	–	–	15,803
	<b>608,444</b>	<b>–</b>	<b>–</b>	<b>608,444</b>
Operating expenses:				
Cost of services	316,410	52,925	520	369,855
Depreciation	198,414	–	–	198,414
	<b>514,824</b>	<b>52,925</b>	<b>520</b>	<b>568,269</b>
Operating income (loss)	<b>93,620</b>	<b>(52,925)</b>	<b>(520)</b>	<b>40,175</b>
Nonoperating revenues (expenses):				
Oil company franchise tax revenues	–	67,071	–	67,071
Motor license registration fee revenue	–	–	28,000	28,000
Investment earnings	33,613	28,234	5,842	67,689
Other nonoperating revenues	1,405	–	–	1,405
Interest and bond expenses	(84,045)	(28,549)	(22,821)	(135,415)
	<b>(49,027)</b>	<b>66,756</b>	<b>11,021</b>	<b>28,750</b>
Change in net assets before capital contributions	<b>44,593</b>	<b>13,831</b>	<b>10,501</b>	<b>68,925</b>
Capital contributions	<b>19,071</b>	<b>5,235</b>	<b>–</b>	<b>24,306</b>
Change in net assets	<b>63,664</b>	<b>19,066</b>	<b>10,501</b>	<b>93,231</b>
Net assets at beginning of year	<b>1,662,244</b>	<b>48,955</b>	<b>(44,282)</b>	<b>1,666,917</b>
Asset transfers	<b>199,735</b>	<b>(23,647)</b>	<b>(176,088)</b>	<b>–</b>
Net assets at end of year	<b>\$ 1,925,643</b>	<b>\$ 44,374</b>	<b>\$(209,869)</b>	<b>\$ 1,760,148</b>

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

13. Segment Information (continued)

Statement of Cash Flows

	Year Ended May 31, 2007			Total
	Mainline	Oil Franchise	Motor License	
	<i>(In Thousands)</i>			
<b>Operating activities</b>				
Cash received from customer tolls and deposits	\$ 670,787	\$ –	\$ –	\$ 670,787
Cash payments for goods and services	(203,761)	(51,095)	(6,162)	(261,018)
Cash payments to employees	(159,493)	–	–	(159,493)
Cash received from other operating activities	11,742	579	–	12,321
Net cash provided by (used in) operating activities	319,275	(50,516)	(6,162)	262,597
<b>Investing activities</b>				
Proceeds from sales and maturities of investments	292,844	295,647	26,623	615,114
Interest received on investments	25,719	24,060	4,871	54,650
Purchases of investments	(537,365)	(147,868)	(41,690)	(726,923)
Net cash (used in) provided by investing activities	(218,802)	171,839	(10,196)	(57,159)
<b>Capital and related financing activities</b>				
Capital grants received	12,874	4,329	–	17,203
Construction and acquisition of capital assets	(462,996)	(144,687)	5,893	(601,790)
Proceeds from sale of capital assets	1,422	–	–	1,422
Payments for bond expenses	(2,343)	(1,824)	(325)	(4,492)
Payments for redemption of revenue bonds	(38,720)	(261,029)	(7,025)	(306,774)
Interest paid on bonds	(72,823)	(27,860)	(21,269)	(121,952)
Proceeds from new bonds	356,688	251,165	–	607,853
Net cash used in capital and related financing activities	(205,898)	(179,906)	(22,726)	(408,530)

*Continued on the following page.*

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

**13. Segment Information (continued)**

**Statement of Cash Flows (continued)**

	Year Ended May 31, 2007			Total
	Mainline	Oil Franchise	Motor License	
	<i>(In Thousands)</i>			
<b>Noncapital financing activities</b>				
Cash proceeds from motor license grant	\$ -	\$ -	\$ 28,000	\$ 28,000
Cash proceeds from oil company franchise tax	-	66,875	-	66,875
Net cash provided by noncapital financing activities	-	66,875	28,000	94,875
Increase (decrease) in cash and cash equivalents	(105,425)	8,292	(11,084)	(108,217)
Cash and cash equivalents at beginning of year	270,277	40,208	30,350	340,835
Cash and cash equivalents at end of year	\$ 164,852	\$ 48,500	\$ 19,266	\$ 232,618

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

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

13. Segment Information (continued)

Statement of Cash Flows (continued)

	Year Ended May 31, 2007			Total
	Mainline	Oil Franchise	Motor License	
	<i>(In Thousands)</i>			
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>				
Operating income (loss)	\$ 93,620	\$ (52,925)	\$ (520)	\$ 40,175
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	198,414	—	—	198,414
Change in operating assets and liabilities:				
Accounts receivable	(1,314)	—	—	(1,314)
Inventories	1,645	—	—	1,645
Other assets	(2)	—	—	(2)
Accounts payable and accrued liabilities	25,356	2,409	(5,642)	22,123
Other noncurrent liabilities	1,556	—	—	1,556
Net cash provided by (used in) operating activities	<u>\$ 319,275</u>	<u>\$ (50,516)</u>	<u>\$ (6,162)</u>	<u>\$ 262,597</u>
<b>Noncash activities</b>				
Increase in fair value of investments	<u>\$ 3,805</u>	<u>\$ 4,910</u>	<u>\$ 537</u>	<u>\$ 9,252</u>

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

13. Segment Information (continued)

Balance Sheet

	May 31, 2006			Total
	Mainline	Oil Franchise	Motor License	
	<i>(In Thousands)</i>			
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 270,277	\$ 40,208	\$ 30,350	\$ 340,835
Short-term investments	97,588	222,446	15,441	335,475
Accounts receivable	28,632	4,926	–	33,558
Accrued interest receivable	683	5,140	738	6,561
Inventories	18,324	–	–	18,324
Total current assets	415,504	272,720	46,529	734,753
Noncurrent assets:				
Long-term investments	51,195	333,381	62,516	447,092
Capital assets:				
Land	156,816	–	–	156,816
Buildings	651,848	–	–	651,848
Improvements other than buildings	56,604	–	–	56,604
Equipment	305,176	–	–	305,176
Infrastructure	4,129,467	–	–	4,129,467
Construction in progress	499,527	66,121	310,107	875,755
	5,799,438	66,121	310,107	6,175,666
Less accumulated depreciation	3,153,372	–	–	3,153,372
	2,646,066	66,121	310,107	3,022,294
Other assets:				
Other assets	383	–	–	383
Deferred bond issuance costs	11,175	7,215	5,036	23,426
Total other assets	11,558	7,215	5,036	23,809
Total noncurrent assets	2,708,819	406,717	377,659	3,493,195
Total assets	\$ 3,124,323	\$ 679,437	\$ 424,188	\$ 4,227,948

*Continued on the following page.*

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

13. Segment Information (continued)

Balance Sheet (continued)

	May 31, 2006			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Liabilities and net assets</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 99,183	\$ 22,184	\$ 10,362	\$ 131,729
Current portion of bonds payable	34,300	11,335	7,025	52,660
Deferred revenue	19,453	–	–	19,453
Total current liabilities	152,936	33,519	17,387	203,842
Noncurrent liabilities:				
Bonds payable, less current portion, net of unamortized premium/discount	1,278,846	596,774	451,083	2,326,703
Other noncurrent liabilities	30,297	189	–	30,486
Total noncurrent liabilities	1,309,143	596,963	451,083	2,357,189
Total liabilities	1,462,079	630,482	468,470	2,561,031
Net assets:				
Invested in capital assets, net of related debt	1,344,094	(534,773)	(142,965)	666,356
Restricted for certain construction and maintenance purposes	281,343	470,008	79,061	830,412
Unrestricted	36,807	113,720	19,622	170,149
Total net assets	1,662,244	48,955	(44,282)	1,666,917
Total liabilities and net assets	<u>\$ 3,124,323</u>	<u>\$ 679,437</u>	<u>\$ 424,188</u>	<u>\$ 4,227,948</u>

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

13. Segment Information (continued)

Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended May 31, 2006			Total
	Mainline	Oil Franchise	Motor License	
	<i>(In Thousands)</i>			
Operating revenues:				
Net fares	\$ 588,637	\$ –	\$ –	\$ 588,637
Other	20,971	–	–	20,971
	609,608	–	–	609,608
Operating expenses:				
Cost of services	356,947	3,797	1,874	362,618
Depreciation	214,885	–	–	214,885
	571,832	3,797	1,874	577,503
Operating income (loss)	37,776	(3,797)	(1,874)	32,105
Nonoperating revenues (expenses):				
Oil company franchise tax revenues	–	55,749	–	55,749
Motor license registration fee revenue	–	–	28,000	28,000
Investment earnings	34,533	15,708	10,265	60,506
Other nonoperating revenues	1,620	169	–	1,789
Interest and bond expenses	(75,754)	(28,893)	(22,918)	(127,565)
	(39,601)	42,733	15,347	18,479
Change in net assets before capital contributions	(1,825)	38,936	13,473	50,584
Capital contributions	14,985	4	8,041	23,030
Change in net assets	13,160	38,940	21,514	73,614
Net assets at beginning of year	1,639,144	15,741	(61,582)	1,593,303
Asset transfers	9,940	(5,726)	(4,214)	–
Net assets at end of year	\$ 1,662,244	\$ 48,955	\$ (44,282)	\$ 1,666,917

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

13. Segment Information (continued)

Statement of Cash Flows

	Year Ended May 31, 2006			Total
	Mainline	Oil Franchise	Motor License	
	<i>(In Thousands)</i>			
<b>Operating activities</b>				
Cash received from customer tolls and deposits	\$ 663,058	\$ —	\$ —	\$ 663,058
Cash payments for goods and services	(243,785)	6,498	(8,735)	(246,022)
Cash payments to employees	(153,889)	—	—	(153,889)
Cash received from other operating activities	10,368	2	4,098	14,468
Net cash provided by (used in) operating activities	275,752	6,500	(4,637)	277,615
<b>Investing activities</b>				
Proceeds from sales and maturities of investments	417,358	287,603	132,763	837,724
Interest received on investments	30,644	25,783	7,835	64,262
Purchases of investments	(285,416)	(294,275)	(63,734)	(643,425)
Net cash provided by investing activities	162,586	19,111	76,864	258,561
<b>Capital and related financing activities</b>				
Capital grants received	11,820	93	3,965	15,878
Construction and acquisition of capital assets	(278,661)	(59,311)	(88,248)	(426,220)
Proceeds from sale of capital assets	2,019	—	—	2,019
Payments for bond expenses	(1,817)	(1,429)	(1,462)	(4,708)
Payments for redemption of revenue bonds	(32,685)	(10,960)	(487,949)	(531,594)
Interest paid on bonds	(64,969)	(28,474)	(24,244)	(117,687)
Proceeds from new bonds	—	—	487,790	487,790
Net cash used in capital and related financing activities	(364,293)	(100,081)	(110,148)	(574,522)

Continued on the following page.



Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

13. Segment Information (continued)

Statement of Cash Flows (continued)

	Year Ended May 31, 2006			Total
	Mainline	Oil Franchise	Motor License	
	<i>(In Thousands)</i>			
<b>Noncapital financing activities</b>				
Cash proceeds from motor license grant	\$ —	\$ —	\$ 28,000	\$ 28,000
Cash proceeds from oil company franchise tax	—	55,736	—	55,736
Net cash provided by noncapital financing activities	—	55,736	28,000	83,736
Increase (decrease) in cash and cash equivalents	74,045	(18,734)	(9,921)	45,390
Cash and cash equivalents at beginning of year	196,232	58,942	40,271	295,445
Cash and cash equivalents at end of year	\$ 270,277	\$ 40,208	\$ 30,350	\$ 340,835

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

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

13. Segment Information (continued)

Statement of Cash Flows (continued)

	Year Ended May 31, 2006			Total
	Mainline	Oil Franchise	Motor License	
	<i>(In Thousands)</i>			
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>				
Operating income (loss)	\$ 37,776	\$ (3,797)	\$ (1,874)	\$ 32,105
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	214,885	—	—	214,885
Change in operating assets and liabilities:				
Accounts receivable	(1,817)	—	—	(1,817)
Inventories	(1,360)	—	—	(1,360)
Other assets	(225)	—	—	(225)
Accounts payable and accrued liabilities	14,593	10,297	(2,763)	22,127
Other noncurrent liabilities	11,900	—	—	11,900
Net cash provided by (used in) operating activities	<u>\$ 275,752</u>	<u>\$ 6,500</u>	<u>\$ (4,637)</u>	<u>\$ 277,615</u>
<b>Noncash activities</b>				
Increase (decrease) in fair value of investments	<u>\$ 2,221</u>	<u>\$ (7,172)</u>	<u>\$ (449)</u>	<u>\$ (5,400)</u>

## Pennsylvania Turnpike Commission

### Notes to Financial Statements (continued)

#### **14. Subsequent Events**

On July 18, 2007, Governor Rendell signed into law Pennsylvania State Legislature HB1590, titled Act 44 of 2007, which included amendments to existing Title 74, Chapter 13, of the Pennsylvania Tax Reform Code regarding the Pennsylvania Turnpike Commission (Commission).

The provisions require the Commission to enter into a 50-year lease agreement by October 15, 2007, with PennDOT for the conversion of I-80 to a toll facility and to provide annual payments to PennDOT to fund Highway, Bridge, and Transit programs throughout the Commonwealth. For the fiscal years ending May 31, 2008, 2009, and 2010, the Commission is required to provide \$750 million, \$850 million, and \$900 million, respectively, to PennDOT. The payment for the fiscal year ending May 31, 2011, and each fiscal year thereafter for the remainder of the lease term, will be the amount calculated for the previous year increased by 2.5%. The Commission will issue bonds and beginning in 2009, will raise tolls as necessary to provide funds required to meet its payment obligations to PennDOT.

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**APPENDIX C**

**SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE INDENTURE**

[SEE ATTACHED]

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## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE 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 Official Statement, including this Appendix C, and the Subordinate Indenture shall have the following meanings unless the context clearly indicates otherwise:

“Act 44” -- an Act of the General Assembly of Pennsylvania approved July 18, 2007, No. 2007-44, including all amendments and any successor act, as amended.

“Additional Subordinate Indenture Bonds” -- Subordinate Indenture Bonds of any Series, other than the Original Subordinate Indenture Bonds, authorized to be issued under the Subordinate Indenture.

“Administrative Expenses” -- costs and fees in connection with the Subordinate Indenture Bonds and Parity Obligations including, without limitation, costs and fees of the Trustee, Consultants, Counsel, Bond Counsel and the Commission.

“Administrative Expenses Fund” -- the fund created under the section “Creation of Funds.”

“Annual Debt Service” -- (a) the amount of principal and interest paid or payable with respect to Subordinate Indenture Bonds in a Fiscal Year plus (b) 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 (c) Approved Swap Agreement payments paid or payable by the Commission in such Fiscal Year, minus (d) 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 (c) and (d) 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 Subordinate Indenture 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 Subordinate 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 judgment, the Commission will be able to refinance such Balloon Indebtedness, in which event the Balloon Indebtedness shall be amortized over the term of the Indebtedness expected to refinance such Balloon 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.

“Applicable Long-Term Indebtedness” -- includes Subordinate Indenture Bonds, Additional Subordinate Indenture Bonds and Parity Obligations.

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

“Assumed Variable Rate” -- in the case of (a) Outstanding Variable Rate Indebtedness, the average interest rate on such Indebtedness for the most recently completed 12-month period; and (b) proposed Variable Rate Indebtedness, (1) 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 Security Industry and Financial Markets Association Municipal Swap Index as the successor to the Bond Market Association Swap Index (“SIFMA Index”) for the 12 months ending 7 days preceding the date of calculation plus 100 basis points, or (2) in the case of Subordinate Indenture Bonds not described in clause (1), 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 SIFMA 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 Subordinate Indenture 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 Subordinate Indenture 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 Subordinate Indenture Bonds, each Person (other than a Bond Insurer or PennDot) 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 Subordinate Indenture 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 Subordinate Indenture Bond which is held by a nominee.

“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 Subordinate Indenture Bonds, the Person undertaking to insure such Subordinate Indenture Bonds as designated in a Supplemental Indenture providing for the issuance of such Subordinate Indenture Bonds.

“Book-Entry-Only System” -- a system similar to the system described in the Subordinate Indenture 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 or any Bank is located, in the Commonwealth or in the City of New York.

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

“Class” -- the Revenue Bonds or their Holders, collectively, or the Guaranteed Bonds or their Holders, collectively, or any future type of Subordinate Indenture Bond, unique in its security or purposes in relation to other Subordinate Indenture Bonds, or its Holders, collectively.



“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.

“Commission Payments” -- the covenant by the Commission and the payments made by the Commission, all as set forth in the section “Commission Payments,” with respect to payments to be made to the Trustee.

“Commission Payments Fund” -- the fund created under the section “Creation of Funds.”

“Conditional Redemption” -- shall have the meaning set forth in the section “Notice of Redemption.”

“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.

“Counsel” -- an attorney or law firm (who may, without limitation, be counsel for the Commission, the Commonwealth or other governmental entity or agency of the Commonwealth) not unsatisfactory to the Trustee.

“Credit Facility” -- any letter of credit, line of credit, standby letter of credit, DSRF Security, 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 Subordinate Indenture Bonds pursuant to the provisions of a Supplemental Indenture under which such Subordinate Indenture 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 Subordinate Indenture Bonds directly rather than through a financial or insurance institution.

“Debt Service Fund” -- the fund created under the section “Creation of Funds.”

“Debt Service Reserve Fund” -- the fund created under the section “Creation of Funds.”

“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 in the section “Debt Service Reserve Fund.”

“Debt Service Reserve Requirement” -- the amount equal to the lesser of (1) Maximum Annual Debt Service on account of all the Debt Service Reserve Fund Bonds, (2) 10% of the aggregate Outstanding principal amount of all the Debt Service Reserve Fund Bonds, and (3) 125% of average Annual Debt Service for all Debt Service Reserve Fund Bonds for each Fiscal Year for the remaining life of such Bonds, provided in any such case that such amount does not exceed what is permitted by the Code.

“Defeasance Securities” --

- (a) Cash,
- (b) Government Obligations,
- (c) Government Obligations which have been stripped by the U.S. Treasury and CATS, TIGRS and similar securities,
- (d) Resolution Funding Corp. strips which have been stripped by the Federal Reserve Bank of New York,
- (e) Pre-refunded obligations of a state or municipality rated in the highest rating category by the Rating Agency, and

(f) Obligations issued by the following agencies which are backed by the full faith and credit of the U.S.:

- 1) Farmers Home Administration  
Certificates of beneficial ownership
- 2) Federal Financing Bank
- 3) General Services Administration  
Participation certificates
- 4) U.S. Maritime Administration  
Guaranteed Title XI financing
- 5) U.S. Department of Housing and Urban Development  
Project Notes Local Authority Bonds New Communities  
Debentures - U.S. government guaranteed debentures
- 6) 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 Subordinate Indenture and approved by the Trustee, and shall include the Trustee.

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

“DSRF Security” -- shall have the meaning set forth in the section “Debt Service Reserve Fund.”

“DTC” -- shall mean The Depository Trust Company.

“Enabling Acts” -- shall mean the Act approved May 21, 1937, P.L. 774, as amended by Acts approved on various dates, including May 24, 1945 P.L. 972, February 26, 1947, P.L. 17, May 23, 1951, P.L. 335, August 14, 1951, P.L. 1232 and September 30, 1985, P.L. 240 and Act 44, as amended, and any successor acts, 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 in the section “Events of Default” in the Subordinate Indenture 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 in the Subordinate Indenture and who is retained by the Commission as a Financial Consultant for the purposes of the Subordinate Indenture.

“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.

“Fixed Rate Bonds” -- Subordinate Indenture Bonds issued at a fixed interest rate.

“General Reserve Fund” -- the General Reserve Fund created under the Senior Indenture.

“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 U.S.,
- (b) obligations issued by a Person controlled or supervised by and acting as an instrumentality of the U.S., the payment of the principal of and interest on which is fully and unconditionally guaranteed as a full faith and credit obligation of the U.S. (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 U.S.),
- (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 U.S. 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 Agency in its highest rating category.

“Guarantee Repayment Fund” -- the fund created under the section “Creation of Funds.”

“Guaranteed Bonds ” -- Bonds issued pursuant to the Subordinate Indenture and authorized pursuant to Section 9511.4 of Act 44 which are secured by Commonwealth Motor License Fund payments but are subordinate to Revenue Bonds with respect to their claim on Commission Payments.

“Guaranteed Bonds Account” -- the account created under the section “Debt Service Account.”

“Guaranteed Bonds Parity Obligations” -- Guaranteed Bonds and all other obligations agreed by the Commission to be on a parity therewith with respect to their claim on Commission Payments.

“Guaranteed Bonds Payments” -- payments received from the Commonwealth’s Motor License Fund pursuant to Act 44 for the purpose of paying debt service on Guaranteed Bonds.

“Guaranteed Bonds Receipts Account” -- the account created under the section “Debt Service Account.”

“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 Subordinate Indenture Bonds, the dates which are defined as such in the Supplemental Indenture under which such Subordinate Indenture 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.

“Interest Sub-Account -- the account created by the section “Debt Service Fund.”

“Issuance Cost” -- costs incurred by or on behalf of the Commission in connection with the issuance of Subordinate Indenture 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 Subordinate Indenture 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 Subordinate Indenture Bonds, the initial or acceptance fee of the Trustee, and all other fees, charges and expenses incurred in connection with the issuance of the Subordinate Indenture Bonds and the preparation of the Subordinate Indenture.

"Lease" -- the Lease and Funding Agreement dated as of October 14, 2007, as it may be amended, between the Commission and PennDot.

"Lease Rental Payments" -- lease rental payments required by the Lease.

"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 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.

"Motor License Fund" -- the Commonwealth Motor License Fund.

"Original Subordinate Indenture Bonds" -- the Commission's Subordinated Turnpike Revenue Bonds, Series 2008A, in an aggregate principal amount of \$244,855,000.

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

- (a) Subordinate Indenture Bonds theretofore cancelled or delivered to the Trustee for cancellation under the Subordinate Indenture;
- (b) Subordinate Indenture Bonds which are deemed to be no longer Outstanding in accordance with the section "Defeasance; Deposit of Funds for Payment of Subordinate Indenture Bonds"; and
- (c) Subordinate Indenture Bonds in substitution for which other Subordinate Indenture Bonds have been authenticated and delivered pursuant to the Subordinate Indenture.

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

"Parity Obligations" -- Revenue Bonds Parity Obligations and Guaranteed Bonds Parity Obligations as separately secured in accordance with the Subordinate Indenture.

"Parity Swap Agreement" -- shall have the meaning set forth in the section "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 Subordinate Indenture Bonds, that Person appointed pursuant to the Subordinate Indenture to make payments to Subordinate Indenture Bondholders of interest and/or principal pursuant to the terms of the Subordinate Indenture, which initially shall be the Trustee.

“Payments” -- Lease, grant or other payments to PennDot pursuant to the provisions of Act 44 or the Lease.

“PennDot” -- Pennsylvania Department of Transportation.

“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 (f) 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 Subordinate Indenture 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 Subordinate Indenture 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;

- (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 Moody's and S&P;
- (p) Asset-backed securities rated in the highest rating category by Moody's and S&P; or
- (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 Subordinate Indenture Bonds.

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

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

"Principal Sub-Account"-- the account created under the section "Debt Service Fund."

"Project" or "Cost"-- any financing which is 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 Long-Term Indebtedness then Outstanding and on any Long-Term Indebtedness proposed to be issued.

"Projected Debt Service Coverage Ratio" -- for the immediately two following Fiscal Years, the ratio determined by dividing the projected amounts to be paid into the General Reserve Fund for each of such years by the Projected Annual Debt Service for each of such years.

"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 section "Rate Covenant."

"Rating Agency" -- Fitch, Moody's, S&P and 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 under the section "Creation of Funds."

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

“Record Date” -- unless otherwise provided with respect to any series of Subordinate Indenture Bonds in a Supplemental Indenture: (a) for Subordinate Indenture Bonds on which interest is payable on the first day of a month, the fifteenth day of the immediately preceding month; or (b) for Subordinate Indenture 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 Subordinate Indenture 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.

“Residual Fund” -- the fund created under the section “Creation of Funds.”

“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 Bonds Account” -- the account created under the section “Debt Service Fund.”

“Revenue Bonds” -- bonds issued pursuant to, and defined in, the section “Subordinate Turnpike Revenue Bonds” and which are not secured by Commonwealth Motor License Fund Payments but have a senior claim on Commission Payments.

“Revenue Bonds Parity Obligations” -- Revenue Bonds and all other obligations agreed by the Commission to be on a parity therewith.

“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 an Subordinate Indenture Bondholder of any Subordinate Indenture Bonds, each Parity Swap Agreement Counterparty providing a Parity Swap Agreement, each Bank providing a Credit Facility, each Bond Insurer providing a Bond insurance policy with respect to a Parity Obligation, each provider of a DSRF Security and holders of other Parity Obligations.

“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.

“Senior Indenture” -- the Amended and Restated Trust Indenture originally dated as of July 1, 1986 and amended and restated as of March 1, 2001 between the Commission and U.S. Bank National Association, as successor trustee, as it may be amended, supplemented or replaced, in connection with the Commission’s main line toll revenue bonds.

“Senior Indenture Trustee” -- the legal person that is the trustee under the Senior Indenture whether by contract or operation of law.

“Short-Term Indebtedness” -- all Indebtedness which matures in less than 365 days and is designated as Short-Term Indebtedness pursuant to the Subordinate Indenture. 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 Subordinate Indenture Bonds issued under such Supplemental Indenture.

“Subordinate Indenture” -- the Subordinate Trust Indenture by and between the Commission and the Trustee as supplemented and amended from time to time.

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

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

“Subordinate Indenture Bond Register” -- the register maintained pursuant to the Subordinate Indenture.

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

“Subordinated Indebtedness” -- Indebtedness incurred pursuant to the Subordinate Indenture.

“Supplemental Indenture” -- any supplemental indenture to the Subordinate Indenture, now or hereafter duly authorized and entered into in accordance with the provisions of the Subordinate Indenture.

“Swap Agreement” -- shall have the meaning set forth in the section “Approved and Parity Swap Obligations.”

“System” -- what are commonly referred to as the “Main Line” and the “Northeast Extension” of the Commission 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 Subordinate Indenture. Notwithstanding the foregoing, no portion of Interstate 80 shall be deemed to be a portion of the “System” unless the Commission affirmatively makes such election in a writing to the Trustee.

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

- (a) the terms of which include (1) 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 (2) 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 (1) one of the two highest long-term Rating Categories by the Rating Agency or (2) 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.

“Trustee” -- Commerce Bank, National Association, and any bank or trust company appointed as successor trustee under the Subordinate Indenture.

“Trust Estate” -- shall mean, collectively, (i) the Commission Payments, (ii) all monies deposited into accounts or funds (other than the Rebate Fund) created by this Subordinate Indenture and held by or on behalf of the Trustee, (iii) any insurance proceeds and other moneys required to be deposited herein, (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 this Subordinate Indenture, other than the Rebate Fund.

“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 (1) 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 (2) 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.

## **SUBORDINATE INDENTURE**

### **SUBORDINATE TURNPIKE REVENUE BONDS**

Revenue Bonds shall be issued under the Subordinate Indenture for the purpose of making Payments to PennDot to finance transit programs, highway and bridge construction and other purposes pursuant to Act 44. The Revenue Bonds shall be senior in right of payment to the Guaranteed Bonds.

### **SUBORDINATE GUARANTEED TURNPIKE REVENUE BONDS**

Subordinate Guaranteed Turnpike Revenue Bonds (“Guaranteed Bonds”) shall be issued under the Subordinate Indenture for the purpose of making Lease Rental Payments to PennDot for the purposes of financing highway and bridge construction and paying other Costs of the Department (as defined in Act 44). The payment of debt service on the Guaranteed Bonds shall be junior in right of payment to the payment of debt service on the Revenue Bonds and the restoration of any deficiency in the Debt Service Reserve Fund for the Revenue Bonds pursuant to the Subordinate Indenture.

### **LIMITED OBLIGATIONS**

The Subordinate Indenture Bonds shall be limited obligations of the Commission, payable solely from the Trust Estate. The Subordinate Indenture Bonds shall constitute a valid claim of the respective owners thereof against the Trust Estate to the extent provided in the Subordinate Indenture, which is pledged to secure the payment of the principal of, redemption premium, if any, and interest on the Subordinate Indenture Bonds as provided in the Subordinate Indenture, and which shall be utilized for no other purpose, except as expressly authorized in the Subordinate Indenture. The Subordinate Indenture Bonds shall not constitute general obligations of the Commission and under no circumstances shall the Subordinate Indenture 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 in the Subordinate Indenture as security for the payment of the Subordinate Indenture 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 SUBORDINATE INDENTURE BONDS; PERSONS TREATED AS SUBORDINATE INDENTURE BONDHOLDERS**

The Trustee shall act as initial Subordinate Indenture Bond registrar (the “Subordinate Indenture Bond Registrar”) and in such capacity shall maintain an Subordinate Indenture Bond register (the “Subordinate Indenture Bond Register”) for the registration and transfer of Subordinate Indenture Bonds. Upon surrender of any Subordinate Indenture Bonds at the designated office of the Trustee, as the Subordinate Indenture Bond Registrar, together with an assignment duly executed by

the current Subordinate Indenture Bondholder of such Subordinate Indenture Bonds or such Subordinate Indenture Bondholder's duly authorized attorney or legal representative in such form as shall be satisfactory to the Trustee, such Subordinate Indenture Bonds may, at the option of the Subordinate Indenture Bondholder, be exchanged for an equal aggregate principal amount of Subordinate Indenture Bonds of the same Series and maturity, of Authorized Denominations and bearing interest at the same rate and in the same form as the Subordinate Indenture 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 Subordinate Indenture Bonds after the giving of notice calling such Subordinate Indenture Bond for redemption, in whole or in part. The Commission shall execute and the Trustee shall authenticate any Subordinate Indenture Bonds whose execution and authentication is necessary to provide for exchange of Subordinate Indenture 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 Subordinate Indenture 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 Subordinate Indenture Bond delivered upon such exchange or transfer, which charge or charges shall be paid before any new Subordinate Indenture Bond shall be delivered.

Prior to due presentment for registration of transfer of any Subordinate Indenture Bond, the Trustee shall treat the Person shown on the Subordinate Indenture Bond Register as owning an Subordinate Indenture Bond as the Subordinate Indenture 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 Subordinate 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 SUBORDINATE INDENTURE BONDS**

The Commission will not issue or incur any other Indebtedness having a parity lien on the Trust Estate except for Additional Subordinate Indenture Bonds issued pursuant to this Section and other Parity Obligations. Additional Subordinate Indenture Bonds may be issued and the Trustee shall authenticate and deliver such Additional Subordinate Indenture 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 Subordinate Indenture Bonds, and (2) the issuance, sale, execution and delivery of the Additional Subordinate Indenture 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 Subordinate Indenture Bonds is permitted under Subordinate Indenture and the Subordinate Indenture, (2) each of the Supplemental Indenture and the Additional Subordinate Indenture 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 Subordinate Indenture 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 Subordinate Indenture 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 Subordinate Indenture and evidence satisfactory to the Trustee that, upon issuance of the Additional Subordinate Indenture Bonds, amounts will be deposited in the Funds under the Subordinate Indenture adequate for the necessary balances therein after issuance of the Additional Subordinate Indenture Bonds (including an amount sufficient to

satisfy the Debt Service Reserve Requirement if the Additional Subordinate Indenture Bonds constitute Debt Service Reserve Fund Bonds);

(f) A certificate of the Commission, signed by a Commission Official, specifying the amount of each Class of Subordinate Indenture Bonds Outstanding after issuance of the Additional Subordinate Indenture Bonds, identifying the Additional Subordinate Indenture Bonds as Revenue Bonds or Guaranteed Bonds, Short-Term Indebtedness, Long-Term Indebtedness or Subordinated Indebtedness and demonstrating with reasonable detail that the provisions of Section 703 of the Senior Indenture and of Section 6.02(a) or (b) of the Subordinate Indenture, have been met for the issuance of such Additional Subordinate Indenture Bonds; and

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

Anything in the Subordinate Indenture to the contrary notwithstanding, Additional Subordinate Indenture Bonds may bear interest which is included in gross income for federal income tax purposes under the Code, in which event provisions in the Subordinate Indenture requiring or referencing the exclusion of interest on Subordinate Indenture Bonds from 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 Subordinate 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 Subordinate Indenture Bonds (or any other Commission bonds to which such Swap Agreement relates) for federal income tax purposes; provided that if the Swap Agreement relates to Subordinate Indenture Bonds being issued and the Swap Agreement is entered into prior to the issuance of such Subordinate Indenture Bonds, the portion of the opinion of Bond Counsel referring to tax-exempt status of the Subordinate Indenture Bonds need not be delivered until such Subordinate Indenture Bonds are issued;

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

(f) Evidence that the relevant provisions of the Subordinate Indenture 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 any or all of its obligations thereunder be on parity with certain other Subordinate Indenture Bonds and certain 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 for the related Series of Subordinate Indenture Bonds 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 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 Subordinate Indenture Bonds by meeting the requirements set forth in the Subordinate Indenture (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 SUBORDINATE INDENTURE BONDS**

The Subordinate Indenture Bonds of any Series or Sub-Series issued under the provisions of the Subordinate 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 Subordinate Indenture Bonds are issued.

If less than all of the Subordinate Indenture Bonds of a Series or Sub-Series 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 Subordinate Indenture 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 Subordinate Indenture Bond to be redeemed shall be an Authorized Denomination or any multiple thereof and in selecting Subordinate Indenture Bonds for redemption, each Subordinate Indenture Bond shall be considered as representing that number of Subordinate Indenture Bonds which is obtained by dividing the principal amount of such Subordinate Indenture Bond by the minimum Authorized Denomination. If a portion of an Subordinate Indenture Bond shall be called for redemption, a new Subordinate Indenture Bond in principal amount equal to the unredeemed portion thereof shall be issued to the Subordinate Indenture Bondholder upon the surrender thereof. If for any reason the principal amount of Subordinate Indenture Bonds called for redemption would result in a redemption of Subordinate Indenture Bonds less than the Authorized Denomination, the Trustee, to the extent possible within the principal amount of Subordinate Indenture Bonds to be redeemed, is hereby authorized to adjust the selection of Subordinate Indenture Bonds for such purpose in order to minimize any such redemption. Notwithstanding the foregoing, the Securities Depository for Book Entry Bonds shall select the Subordinate Indenture Bonds for redemption within particular maturities according to its stated procedures.

## **NOTICE OF REDEMPTION**

(a) When Subordinate Indenture Bonds (or portions thereof) are to be redeemed, the Commission shall give or cause to be given notice of the redemption of the Subordinate Indenture 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 subsection (d) of this Section.

The Trustee, at the expense of the Commission, shall send notice of any redemption, identifying the Subordinate Indenture Bonds to be redeemed, the redemption date and the method and place of payment and the information required by

subsection (b) of this Section, by first class mail to each holder of a Subordinate Indenture Bond called for redemption to the holder's address listed on the Subordinate Indenture 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 Subordinate Indenture 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 Subordinate Indenture 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 Subordinate Indenture Bonds.

(b) In addition to the foregoing, the redemption notice shall contain with respect to each Subordinate Indenture 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 Subordinate Indenture 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 Subordinate Indenture 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 Subordinate Indenture Bonds; (iii) all Nationally Recognized Municipal Securities Information Repositories, a Pennsylvania State Information Depository and any similar entities which are required recipients by reason of continuing disclosure undertakings or regulatory requirements, such services to be identified by the Trustee, and (iv) one or more other national information services that disseminate notices of redemption of bonds such as the Subordinate Indenture Bonds, such services to be identified by the Trustee.

(c) On or before the date fixed for redemption, subject to the provisions of subsections (a) and (d) of this Section, 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 Subordinate Indenture Bonds called for redemption. Upon the deposit of such moneys, unless the Commission has given notice of rescission as described in subsection (d) of this Section, the Subordinate Indenture Bonds shall cease to bear interest on the redemption date and shall no longer be entitled to the benefits of the Subordinate 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 Subordinate Indenture Bondholders. Any Subordinate Indenture 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.

#### **PURCHASE OF SUBORDINATE INDENTURE BONDS AT ANY TIME**

The Trustee, upon the written request of the Commission, shall purchase Subordinate Indenture Bonds as specified by the Commission in the open market at a price not exceeding the price specified by the Commission. Such purchase of Subordinate Indenture Bonds shall be made with funds available under the Subordinate Indenture or provided by the Commission in such written request. Upon purchase by the Trustee, such Subordinate Indenture Bonds shall be treated as delivered for cancellation pursuant to the Subordinate Indenture. Nothing in the Subordinate Indenture shall prevent the Commission from purchasing Subordinate Indenture Bonds on the open market without the involvement of the Trustee and delivering such Subordinate Indenture Bonds to the Trustee for cancellation pursuant to the Subordinate Indenture. Subordinate Indenture Bonds purchased pursuant to this Section which are subject to a mandatory sinking fund redemption schedule may be credited against future mandatory sinking fund redemption payments. The principal amount of Subordinate Indenture Bonds to be redeemed by optional redemption under the Subordinate Indenture may be reduced by the principal amount of Subordinate Indenture Bonds purchased by the Commission and delivered to the Trustee for cancellation at least fifteen (15) days prior to the last date on which the notice of Redemption can be mailed.

## **COSTS OF REDEMPTIONS**

The payment of the necessary costs and expenses of such redemptions, including, without limiting the generality of the foregoing, all reasonable legal fees, costs of advertisements, printing costs, brokerage charges and charges of the Trustee, if any, incident to such redemption, shall be payable by the Commission from moneys in the General Reserve Fund or from such other source as is identified in a certificate of a Commission Official.

## **COMMISSION PAYMENTS**

(a) The Commission covenants, after payment of all required debt service on all Parity Obligations and Subordinated Indebtedness (each as defined in the Senior Indenture) issued under the Senior Indenture and subject to the provisions of the Senior Indenture, to pay to the Trustee, and to instruct the Senior Trustee to pay to the Trustee, out of the General Reserve Fund such amounts as are required by the Subordinate Indenture or by a Supplemental Indenture thereto to pay, at the times specified, required payments with respect to all bonds issued under the Subordinate Indenture, Supplemental Indentures thereto and Parity Obligations under the Subordinate Indenture. Accordingly, the Commission shall instruct, or furnish a debt service schedule to, the Senior Trustee providing for the payment to the Subordinate Trustee out of funds held in the General Reserve Fund monies to pay such amounts as are required by the Subordinate Indenture with respect to the outstanding bonds issued under the Subordinate Indenture, a Supplement thereto, Parity Obligations thereunder and all other payments required thereunder at such times on such terms as are set forth in the Subordinate Indenture or in a Supplemental Indenture (collectively, the "Commission Payments"). The Trustee shall make the Commission Payments to the Subordinate Trustee in accordance with such instructions and provisions.

(b) In addition to other payments and General Reserve Fund withdrawals required under the Subordinate Indenture, by a Supplemental Indenture or pursuant to Revenue Bonds Parity Obligations or Guaranteed Bonds Parity Obligations, the Commission, as more specifically set forth in the Subordinate Indenture, shall withdraw, or arrange for the withdrawal, from the General Reserve Fund and deposit to the Commission Payments Fund the amounts hereinafter specified which shall be applied by the Trustee for the purposes for which the same shall be deposited:

(1) On or before the first Business Day of each calendar month commencing on the first Business Day of the sixth month prior to the next succeeding Interest Payment Date, an amount which equals the amount necessary to pay, and for the purpose of paying, one-sixth (1/6) of 115% of the interest due on any Fixed Rate Bonds, issued as Revenue Bonds, on the next succeeding Interest Payment Date including any amount due to the Bond Insurer in respect thereto (or, in the case of the period from the date of issuance of such Fixed Rate Bonds to the first Interest Payment Date for the applicable Fixed Rate Bonds, a monthly amount equal to 115% of the interest amount owed on such first Interest Payment Date divided by the number of months from the date of issuance of such Fixed Rate Bond to such first Interest Payment Date), which amount shall be deposited promptly in the Commission Payments Fund.

(2) On or before the first Business Day of each calendar month commencing on the first Business Day of the twelfth month prior to the next succeeding principal payment date, an amount which equals one-twelfth (1/12) of the amount necessary to pay and for the purpose of paying, 115% the principal amount of any Fixed Rate Bonds issued as Revenue Bonds maturing on the next succeeding maturity date (or, in the case of the period from the date of issuance of such Fixed Rate Bonds to the first date on which principal is due on such Fixed Rate Bonds, a monthly amount equal to 115% of the principal amount owed on such first principal maturity date divided by the number of months from the date of issuance of such Fixed Rate Bond to such first principal maturity date), which amount shall be deposited promptly in the Commission Payments Fund.

(3) On or before the fifteenth Business Day of each calendar month commencing on the fifteenth Business Day of the sixth month prior to the next succeeding Interest Payment Date, but not before the payments required by Section (1) and (2) above, an amount which equals the amount necessary to pay, and for the purpose of paying, one-sixth (1/6) of 100% of the interest due on any Fixed Rate Bonds, issued as Guaranteed Bonds, on the next succeeding Interest Payment Date including any amount due to the Bond Insurer in respect thereto (or, in the case of the period from the date of issuance of such Fixed Rate Bonds to the first Interest Payment Date for the applicable Fixed Rate Bonds, a monthly amount equal to 100% of the interest amount owed on such first Interest Payment Date divided by the number of months from the date of issuance of such Fixed Rate Bond to such first Interest Payment Date), which amount shall be deposited promptly in the Commission Payments Fund.

(4) On or before the fifteenth Business Day of each calendar month commencing on the fifteenth Business Day of the twelfth month prior to the next succeeding principal payment date, but not before the payments required by Section (1) and (2) above, an amount which equals one-twelfth (1/12) of the amount necessary to pay and for the purpose of paying, 100% of the principal amount of any Fixed Rate Bonds issued as Guaranteed Bonds maturing on the next succeeding maturity date (or, in the case of the period from the date of issuance of such Fixed Rate Bonds to the first date on which principal is due on such Fixed Rate Bonds, a monthly amount equal to 100% of the principal amount owed on such first principal maturity date divided by the number of months from the date of issuance of such Fixed Rate Bond to such first principal maturity date), which amount shall be deposited promptly in the Commission Payments Fund.

(c) In the event of any failure by the Commission to make any of the payments required by Section (b)(1) or (2) above required to be deposited in the Interest Sub-Account or Principal Sub-Account for the Revenue Bonds, in addition to other remedies in the Subordinate Indenture, the Trustee shall promptly, after utilizing any available funds in the Residual Fund or the applicable Account of the Debt Service Reserve Fund, transfer to such Sub-Accounts from any balances in the Interest Sub-Account or Principal Sub-Account for the Subordinated Guaranteed Bonds such amounts as are necessary to correct such deficiencies.

(d) In the event of any failure by the Commission to make any of the payments required by Section (b) (3) or (4) above required to be deposited in the Interest Sub-Account or Principal Sub-Account for the Guaranteed Bonds, the Trustee shall immediately send notice, by electronic format or otherwise, to PennDot, with a copy to the Commission and the Treasurer of the Commonwealth, in the form attached to the Subordinate Indenture as Exhibit A, to make payment out of the Motor License Fund pursuant to Subordinate Indenture for payment to the Guaranteed Bonds Receipts Account in the amount of any such failure by the Commission to make payment for such time until the Commission resumes full payment.

#### **RATE COVENANT**

(a) The Commission covenants that it will establish and maintain schedules of Tolls for traffic over the System as required by the Senior Indenture and, in addition, so that the amount paid into the General Reserve Fund of the Senior Indenture in each Fiscal Year and for each Commission Payment, will be at least sufficient to provide funds in an amount not less than

(1) 115% of the Annual Debt Service for such Fiscal Year on account of all Outstanding Revenue Bonds and Revenue Bonds Parity Obligations;

plus

(2) 100% of the Annual Debt Service for such Fiscal Year on account of all Outstanding Guaranteed Bonds, Guaranteed Bonds Parity Obligations and Subordinated Indebtedness.

plus

(3) any payment by the Commission required by the Subordinate Indenture for restoring any deficiency in the Debt Service Reserve Fund within an eighteen (18) month period.

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

(b) The Commission's failure to meet the Rate Covenant shall not constitute an Event of Default under the Subordinate Indenture if (1) no Event of Default occurred under "Events of Default" sections (a) or (b) 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 Subordinate Indenture to the contrary notwithstanding, if the Commission shall comply with the recommendations of the Consultant in respect of Tolls to the extent permitted by law, it will not constitute an Event of Default under the provisions of the Subordinate Indenture if the Commission fails to meet the Rate Covenant during the succeeding Fiscal Year as long as no Event of Default has occurred under "Events of Default" sections (a) or (b). 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 Subordinate Indenture Bonds of any Class then outstanding and upon being indemnified to its satisfaction shall, institute and prosecute in a court of competent jurisdiction any appropriate action to compel the Commission to revise the schedules of Tolls. The Commission covenants that it will adopt and charge Tolls in compliance with any final order or decree entered in any such proceeding.

In the event that the Consultant shall fail to file with the Commission such recommendations in writing within sixty (60) days after 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 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.

Any Consultant retained or designated in accordance with the Senior Indenture shall be deemed acceptable as a Consultant for purposes of the Subordinate Indenture.

## **CREATION OF FUNDS**

In addition to any funds created by Supplemental Indentures, the Subordinate Indenture creates the following funds and amounts deposited therein shall be held in trust by the Trustee until applied as directed under the Subordinate Indenture: Commission Payments Fund; Administrative Expenses Fund; Debt Service Fund; Debt Service Reserve Fund; Guarantee Repayment Fund; Rebate Fund; and Residual Fund.

## **COMMISSION PAYMENTS FUND**

The Subordinate Indenture creates a Commission Payments Fund. The Commission covenants that all Commission Payments will be deposited with the Trustee or in the name of the Trustee with a depository or depositories to the credit of the Commission Payments Fund.

Except as otherwise provided in the Subordinate Indenture, transfers from the Commission Payments Fund shall be made to the following funds and in the following order of priority:

- (1) Rebate Fund;
- (2) Administrative Expenses Fund;
- (3) Revenue Bonds Account of the Debt Service Fund;
- (4) Guaranteed Bonds Account of the Debt Service Fund;
- (5) Debt Service Reserve Fund;
- (6) Guarantee Repayment Fund; and
- (7) Residual Fund.

## **ADMINISTRATIVE EXPENSES FUND**

The Subordinate Indenture creates an Administrative Expenses Fund. Under the Subordinate Indenture the Trustee is directed to deposit into the Administrative Expenses Fund from the Commission Payments Fund such amounts as are needed for the payment of Administrative Expenses.

In the event of a deficiency in the Rebate Fund, arbitrage rebate, yield reduction or similar payments may be made from amounts in the Administrative Expenses Fund with respect to Subordinate Indenture Bonds.

## **DEBT SERVICE FUND**

The Subordinate Indenture creates separate accounts in the Debt Service Fund to be known as the "Revenue Bonds Account" and the "Guaranteed Bonds Account". Each such Account shall have an "Interest Sub-Account" and "Principal



Sub-Account” for each Series or Sub- Series of tax exempt and taxable Subordinate Indenture Bonds issued pursuant to Supplemental Indentures. The Subordinate Indenture also creates a Guaranteed Bonds Receipts Account. Any payments by the Commonwealth from the Commonwealth’s Motor License Fund pursuant to Subordinate Indenture with respect to the Guaranteed Bonds shall be deposited into the Guaranteed Bonds Receipts Account for payment by the Trustee of principal and interest on the Guaranteed Bonds. To the extent required for payment of Annual Debt Service, the Trustee shall make payment, on the dates required for such payments, from the Commission Payments Fund into the Revenue Bonds Account and the Guaranteed Bonds Account of the Debt Service fund of such required amounts.

The Trustee and the Commission may create such additional accounts and sub-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 Subordinate Indenture 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 Subordinate Indenture Bonds shall be used to repay the provider of the Credit Facility for such payments), and (b) an account into which payments by the Commission to any Parity Swap Counterparty are to be deposited and from which payments to such Parity Swap Counterparty are to be paid.

The moneys in the Interest and Principal Accounts shall be held by the Trustee in trust for the benefit of the applicable Series of Subordinate Indenture 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 applicable Series of Subordinate Indenture Bonds until paid out or transferred as hereinafter provided. 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 Subordinate Indenture 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 for Debt Service Reserve Fund Bonds 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 Debt Service Reserve Fund and transfer the same to the Debt Service Fund.

#### **DEBT SERVICE RESERVE FUND**

A special account within the Debt Service Reserve Fund may be created with respect to each Series or Sub-Series of Debt Service Reserve Fund Bonds issued under the Subordinate Indenture and any Supplemental Indenture.

In each Fiscal Year, after first having made the deposits provided in the section “Debt Service Fund”, the Commission shall pay out of the General Reserve Fund into the Commission Payments fund and the Trustee shall transfer from the Commission Payments 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 contained in the section “Rate Covenants,” 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.

Subject to the preceding paragraph, 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 Subordinate Indenture for the benefit of all Debt Service Reserve Fund Bonds of the same Class.

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 Commission Payments 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 funds shall be allocated, subject to the provisions of the Subordinate Indenture, pro rata among such Bonds.

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 Debt Service Reserve Fund Bonds being downgraded) (each, a “DSRF Security”) payable to the Trustee 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 Debt Service Reserve Fund 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.

### **REBATE FUND**

The Commission covenants to calculate and to pay directly to the government of the U.S. all amounts due for payment of “arbitrage rebate” under Section 148(f) of the Code with respect to any Subordinate Indenture 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 hereunder for any or all Series of Subordinate Indenture 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 U.S. 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 Commission Payments Fund.

### **GUARANTEE REPAYMENT FUND**

The Subordinate Indenture creates a Guarantee Repayment Fund. Based on such time schedule as is agreed by the Commission and PennDot and furnished to the Trustee, the Trustee shall deposit out of the General Reserve Fund into the Commission Payments Fund and shall deposit into the Guarantee Repayment Fund out of the Commission Payments Fund and the Residual Fund such amounts as are necessary to repay, and the Trustee is hereby instructed to repay out of the Guarantee Repayment Fund, to the Commonwealth’s Motor License Fund any debt service payments which are made out of the Motor License Fund.

### **RESIDUAL FUND**

The Subordinate Indenture creates a Residual Fund. After making all payments required under the Subordinate Indenture or under a Supplemental Indenture, the Trustee shall at least annually deposit into the Residual Fund out of the Commission Payments Fund such amounts from the Commission Payments Fund as are in excess of current debt service and other required payments and deposits pursuant to the Subordinate Indenture.

(a) Moneys in the Residual Fund may be expended by the Commission to restore deficiencies in any funds or accounts created under the Subordinate Indenture (including without limitation the Revenue Bonds Principal and Interest Sub-Accounts) 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 Parity

Obligations; or

(3) To further any corporate purpose.

(b) The Trustee is authorized to apply monies on deposit in the Residual 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:

(1) 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 Subordinate Indenture or to a fund or account held by the Commission and not subject to the Subordinate Indenture, the name of such fund or account,

(2) the amount to be paid, and

(3) the purpose for which the payment is to be made.

(c) Pursuant to the written request of the Commission, the Trustee shall transfer to the General Reserve Fund of the Senior Indenture at any time any balance in the Residual Fund not required to restore any deficiency in a fund or account established under the Subordinate Indenture.

### **MONEYS SET ASIDE FOR PRINCIPAL AND INTEREST HELD IN TRUST**

All moneys which the Trustee shall have set aside (or deposited with any paying agent) for the purpose of paying any of the Subordinate Indenture Bonds hereby secured, either at the maturity thereof or upon call for redemption, shall be held in trust for the respective holders of the applicable Series of such Subordinate Indenture Bonds. However, any moneys which shall be so held or deposited by the Trustee, and which shall remain unclaimed by the holders of such Subordinate Indenture Bonds for the period of five years after the date on which such Subordinate Indenture Bonds shall have become payable, shall be paid to the Commission upon its written request or to such officer, board or body as may then be entitled by law to receive the same; thereafter the holders of such Subordinate Indenture Bonds shall look only to the Commission or to such officer, board or body, as the case may be, for payment and then only to the extent of the amounts so received without any interest thereon, and the Trustee shall have no responsibility with respect to such moneys.

### **ADDITIONAL SECURITY**

Except as otherwise provided or permitted in the Subordinate Indenture, the Trust Estate securing Subordinate Indenture Bonds issued under the terms of the Subordinate Indenture shall be shared on a parity with other Parity Obligations as provided in the Subordinate Indenture. 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 Subordinate Indenture Bonds for federal income tax purposes will not be adversely affected thereby. Moreover, the Commission may provide in a Supplemental Indenture that Subordinate Indenture Bonds issued thereunder are not secured, or are secured only in part or only under certain circumstances, by the Trust Estate.

### **DEPOSITARY**

Except as otherwise provided under the Subordinate Indenture, all moneys received by the Commission under the provisions of the Subordinate Indenture shall be deposited with the Trustee or with one or more Depositaries. All moneys deposited under the provisions of the Subordinate 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 Subordinate 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 Subordinate Indenture shall, to the extent not insured, be secured in the manner required or permitted by applicable law.

## **INVESTMENT OF MONEYS**

Moneys held in any of the funds or accounts under the Subordinate Indenture may be retained uninvested, if deemed necessary by the Commission, as trust funds and secured as provided in the Subordinate Indenture 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 Subordinate 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 Subordinate 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 and account held under the Subordinate Indenture shall be valued by the Trustee at least once annually within thirty days after the end of each Fiscal Year.

## **PAYMENT OF PRINCIPAL, INTEREST AND PREMIUM**

The Commission covenants that it will promptly pay, by disbursement to the Trustee which is authorized to make the required payments, the principal of, premium, if any, and the interest on every Subordinate Indenture Bond and other Parity Obligations issued or agreed by the Commission to be parity under the provisions of the Subordinate Indenture at the places, on the dates and in the manner provided in the Subordinate Indenture and in said Subordinate Indenture Bonds and other Parity Obligations and will promptly pay all Administrative Expenses and any payments required to be made by the Commission to the Commonwealth's Motor License Fund. Except as otherwise provided in the Subordinate Indenture, all such monies are payable solely from Commission Payments, which Commission Payments are hereby pledged to the payment thereof in the manner and to the extent provided in the Subordinate 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 obligations described in the Subordinate Indenture.

## **LIMITATIONS ON ISSUANCE OF ADDITIONAL SUBORDINATE INDENTURE BONDS AND EXECUTION OF APPROVED SWAP**

(a) Long-Term Indebtedness.

(1) The Commission agrees that it will not issue any Additional Subordinate Indenture Bonds constituting Long-Term Indebtedness unless prior to or contemporaneously with the incurrence thereof, the relevant provisions of the Senior Indenture and the Subordinate Indenture are met after taking into account as part of the calculations the issuance of such Additional Subordinate Indenture Bonds under the Subordinate Indenture and there are delivered to the Trustee:

(i) a certificate of a Commission Official certifying that the amount paid into the General Reserve Fund under the Senior Indenture for the most recent Fiscal Year preceding the delivery of such certificate for which audited financial statements are available divided by the Annual Debt Service on Outstanding Revenue Bonds including any Revenue Bonds to be issued at that time, and on Outstanding Revenue

Bonds Parity Obligations, including Revenue Bonds Parity Obligations to be issued at that time, was not less than 1.15; and

a certificate of a Commission Official certifying that the amount paid into the General Reserve Fund under the Senior Indenture for the most recent Fiscal Year preceding the delivery of such certificate for which audited financial statements are available divided by the Annual Debt Service on Outstanding Guaranteed Bonds including any Guaranteed Bonds to be issued at that time, and on Outstanding Guaranteed Bonds Parity Obligations, including Guaranteed Bonds to be issued at that time, was not less than 1.00; or

(ii) a report of a Consultant to the effect that the Projected Debt Service Coverage Ratio is not less than 1.10 for the Outstanding Bonds, including any Bonds to be issued at that time, and Parity Obligations.

(2) 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.

(3) If the additional Series of Subordinate Indenture Bonds are refunding Subordinate Indenture Bonds issued to refund other Subordinate Indenture Bonds, the following shall be delivered:

(i) Evidence satisfactory to the Trustee that the Commission has made provision as required by the Subordinate Indenture for the payment or redemption of all Subordinate Indenture Bonds to be refunded;

(ii) A written determination by the Trustee or by a firm of certified independent public accountants or other qualified firm acceptable to the Commission and the Trustee that the proceeds (excluding accrued interest) of the refunding Subordinate Indenture Bonds, together with any other money to be deposited for such purpose with the Trustee, or in escrow for the benefit of the Trustee, upon the issuance of the refunding Bonds and the investment income to be earned on funds held by, or in escrow for the benefit of, the Trustee for the payment or redemption of other Subordinate Indenture Bonds will be sufficient without reinvestment to pay, whether upon redemption or at maturity, the principal of and premium, if any, and interest on the Subordinate Indenture Bonds to be refunded and the estimated expenses incident to the refunding; and

(iii) Either a written determination by the Trustee or by a firm of certified independent public accountants or other qualified firm acceptable to the Commission and the Trustee that after the issuance of the refunding Subordinate Indenture Bonds and the provision for payment or redemption of all Subordinate Indenture Bonds to be refunded, Debt Service for each Fiscal Year in which there will be Outstanding Subordinate Indenture Bonds (not including Subordinate Indebtedness) of any Series not to be refunded will not be more than Debt Service for the Fiscal Year would have been respectively in each case on all Outstanding Revenue Bonds and on all Outstanding Guaranteed Bonds (in each case not including Subordinate Indebtedness) immediately before the issuance of the refunding Bonds, including the Subordinate Indenture Bonds, to be refunded.

(b) 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 or any Series of Subordinate Indenture Bonds and other Parity Obligations incurred under the Subordinate Indenture so that the same is payable as to principal and interest once all other payments have been made under the Subordinate Indenture from the amounts on deposit to the credit of the Commission Payments 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 the Subordinate Indenture (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 Subordinate Indenture Bonds or any Series thereof on the Commission Payments or (b) prior to, on a parity with or subordinate to, the Subordinate Indenture Bonds or any Series thereof on Other Revenues, in which event the Commission and the Trustee may establish such other accounts under the Subordinate Indenture as they deem necessary or appropriate.

(c) 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 of the Subordinate Indenture 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.

#### **COVENANT AS TO LEASE**

The Commission covenants it will not agree to any amendments or supplements to the Lease or waivers thereunder which adversely affect the holders of the Subordinate Indenture Bonds. The Commission covenants, as set forth in the Lease, that its obligations to pay Lease Rental Payments shall be subordinate obligations of the Commission, payable from amount in the General Reserve Fund only as permitted by any financing documents, financial covenants, liquidity policies or agreements in effect of the Commission. The Commission agrees that Lease Rental Payments will not be made at any when there is an outstanding uncured Event of Default under the Senior Indenture or this Subordinate Indenture.

#### **COVENANTS AS TO ACT 44 – GUARANTEED BONDS**

The Commission covenants, as required by Act 44, that (i) it will not issue Guaranteed Bonds in an aggregate amount exceeding \$5,000,000,000, including unless otherwise authorized by Act of the Pennsylvania General Assembly; and (ii) it will not issue Guaranteed Bonds in an amount exceeding \$600,000,000 in any calendar year unless otherwise authorized by Act of the Pennsylvania General Assembly.

In the event an amendment to Act 44 or enactment of other legislation providing that the Motor License Fund will become the primary payment source for debt service on the Guaranteed Bonds, the Commission may elect to substitute the Motor License Fund for the Commission Payments as the primary source of payment of debt service on the Guaranteed Bonds; provided, however, the Commission may make such election only if it (i) obtains conformation from the Rating Agencies that such change will not adversely affect the ratings on the Guaranteed Bonds and on the Revenue Bonds that remain outstanding after such change, and (ii) causes to be delivered an opinion of Bond Counsel that such change will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Guaranteed Bonds.

The Commission covenants that it will seek to enforce the covenants of the Commonwealth in Act 44 with respect to the Guaranteed Bonds and the Commonwealth's Motor License Fund. The Commission also covenants that it will seek to enforce to the extent possible and as permitted by applicable law, and that it will not take any action in violation of, Sections 8915.3(7) and 9511.11(C) of Act 44. The Trustee may, and the Trustee, upon receipt of written direction from the holders of not less than twenty-five percent (25%) in principal amount of the Guaranteed Bonds then outstanding and upon being indemnified to its satisfaction shall, institute and prosecute in a court of competent jurisdiction any appropriate action to enforce the covenants of the Commonwealth in Act 44.

The Commission covenants that it will seek to continue the Commonwealth's Motor License Fund in full force and effect without change which would materially adversely affect the Guaranteed Bonds. The Commission shall take such action as may be desirable or necessary to prevent or remedy the occurrence of any such change by petitioning the Governor and the General Assembly and taking appropriate legal action.

#### **EVENTS OF DEFAULT**

Each of the following is an "Event of Default" with respect to a particular Series under the Subordinate Indenture:

- (a) Default in the payment of any installment of principal, redemption premium, if any, interest or other amount due on that particular Class of Subordinate Indenture Bonds when the same becomes due and payable;
- (b) Default in the payment by the Commission of any other Parity Obligation of that particular Class;
- (c) With respect only to Guaranteed Bonds and subject to the provisions of the Subordinate Indenture, default in the performance or breach of the covenants contained in the Subordinate Indenture;
- (d) Subject to the provisions of the Subordinate Indenture, default in the performance or breach of any other covenant, warranty or representation of the Commission contained in the Subordinate Indenture (other than a default under subsections (a) and (b) of this Section);
- (e) The occurrence of any Event of Default under any Supplemental Indenture with respect to that particular Class; or
- (f) (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.

## **TAX COVENANTS**

- (a) The Commission covenants that it will neither make nor direct the Trustee to make any investment or other use of the proceeds of any Series of tax exempt Subordinate Indenture Bonds issued under the Subordinate Indenture that would cause such Series of tax exempt Subordinate Indenture Bonds to be “arbitrage bonds”, as that term is defined in Section 148(a) of the Code, and that it will comply with the requirements of the Code throughout the term of such Series of tax exempt Subordinate Indenture Bonds. The Trustee covenants that in those instances where it exercises discretion over the investment of funds, it shall not knowingly make any investment inconsistent with the foregoing covenants.
- (b) Notwithstanding the foregoing, the Commission hereby reserves the right to elect to issue one or more Series of Additional Subordinate Indenture Bonds, the interest on which is not exempt from federal income taxation. If such election is made prior to the issuance of such Additional Subordinate Indenture Bonds, then the covenants contained in this Section shall not apply to such Series of Subordinate Indenture Bonds.
- (c) The Commission covenants that it (1) will take, or use its best efforts to require to be taken, all actions that may be required of the Commission for the interest on the Subordinate Indenture Bonds to be and remain not included in gross income for federal income tax purposes and (2) will not take or authorize to be taken any actions within its control that would adversely affect that status under the provisions of the Code.

## **SECURITY AGREEMENT; FINANCING STATEMENT**

In addition to the assignment by the Commission of its rights in the Trust Estate to the Trustee, the Commission hereby acknowledges that in order to more fully protect, perfect and preserve the rights of the Trustee, the Subordinate Indenture Bondholders and owners of Parity Obligations in the Trust Estate, the Commission grants to the Trustee a security interest in the Trust Estate and the proceeds thereof. The Commission agrees to cooperate with the Trustee in filing financing statements, and continuations thereof, in such manner and in such places as may be required by law in order to perfect such security interest. In the event that the Trustee becomes aware of a change in law which might affect such filing, the Trustee, at the expense of the Commission, may obtain an opinion of Counsel setting forth what actions, if any, the Commission or the Trustee should take in order to protect, perfect and preserve such security interest. The Commission shall cooperate with the Trustee in taking such actions, including the execution of any necessary financing statements and continuations thereof.

## **FURTHER INSTRUMENTS AND ACTION**

The Commission covenants that it will, from time to time, execute and deliver such further instruments and take such further action as may be required to carry out the purposes of the Subordinate Indenture.

## **REMEDIES**

(a) 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 Revenue Bonds Outstanding and subject, to the requirements of the Subordinate Indenture, shall proceed to protect and enforce its rights and the rights of the holders of the applicable Series of Subordinate Indenture Bonds under the Subordinate Indenture by a suit or suits in equity or at law, either for the specific performance of any covenant or agreement contained in the Subordinate Indenture or in aid of the execution of any power granted in the Subordinate Indenture, 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 applicable Series of Subordinate Indenture Bondholders under the applicable Series of Subordinate Indenture Bonds or the Subordinate Indenture.

(b) Without limiting the generality of the foregoing, the Trustee shall at all times have the power to institute and maintain such proceedings as it may deem expedient: (1) to prevent any impairment of the Trust Estate by any acts which may be unlawful or in violation of the Subordinate Indenture, and (2) to protect its interests and the interests of the Subordinate Indenture Bondholders in the Trust Estate and in the issues, profits, revenues and other income arising therefrom, including the power to maintain proceedings to restrain the enforcement of or compliance with any governmental enactment, rule or order which may be unconstitutional or otherwise invalid, if the enforcement of, or compliance with, such enactment, rule or order would impair the Trust Estate or be prejudicial to the interests of the Subordinate Indenture Bondholders or the Trustee.

(c) 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 Guaranteed Bonds Outstanding, appoint a co-trustee to represent the holders of the Guaranteed Bonds.

(d) Notwithstanding anything to the contrary contained in the Subordinate Indenture, the Trustee shall proceed to protect and enforce its rights under the section "Commission Payments" and the rights of the holders of the applicable Series of Subordinate Indenture Bonds under the section "Commission Payments" by a suit or suits in equity or at law, either for the specific performance or mandamus of any covenant or agreement contained in the Subordinate Indenture in a manner that the Trustee in reliance, upon the advice of Counsel, may deem most effective to protect and enforce any of its rights under the section "Commission Payments" or the interests or of the applicable Series of Subordinate Indenture Bondholders under the section "Commission Payments."

## **MARSHALING OF ASSETS**

Upon the occurrence of an Event of Default, all moneys in all Funds (other than moneys in the Rebate Fund and the Guarantee Repayment Fund) shall be available to be utilized by the Trustee in accordance with the Subordinate Indenture. The rights of the Trustee under the Subordinate Indenture shall be applicable. During the continuance of any such Event of Default, all provisions of the Subordinate Indenture relating to the utilization of Funds shall be superseded by the right of the Trustee to marshal assets under the Subordinate Indenture. Subsequent to the curing or waiver of any such Event of Default, the provisions of the Subordinate Indenture relating to utilization of Funds shall be reinstated.

## **TRUSTEE MAY FILE PROOFS OF CLAIM**

(a) 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 Subordinate Indenture Bonds or any property of the Commission, the Trustee (whether or not the principal of the Subordinate Indenture 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 Subordinate Indenture Bonds then Outstanding or for breach of the Subordinate 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 Subordinate Indenture.

(b) No provision of the Subordinate Indenture empowers the Trustee to authorize or consent to or accept or adopt on behalf of any Subordinate Indenture Bondholders any plan of reorganization, arrangement, adjustment or composition affecting any of the Subordinate Indenture 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 subsection (a) of this Section.

#### **NOTICE AND OPPORTUNITY TO CURE CERTAIN DEFAULTS**

No default under the relevant sections of the Subordinate Indenture 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 applicable Series of Subordinate Indenture 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.

#### **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 Subordinate Indenture Bond Owner pursuant to any right given or action taken under the provisions of the Subordinate Indenture, 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 Subordinate Indenture Bonds) of amounts to which they are entitled by virtue of their parity position, shall be deposited and applied as follows:

(a) first, to the payment to the persons entitled thereto of all installments of interest then due on the applicable Series of Subordinate Indenture 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;

(b) second, to the payment to the persons entitled thereto of the unpaid principal of any of the applicable Series of Subordinate Indenture Bonds which shall have become due with interest on such Subordinate Indenture 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 Subordinate Indenture 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

(c) third, to the payment of any other amounts then owing under the Subordinate 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 Subordinate 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 Subordinate Indenture Bonds with respect to which the Event of Default occurred and shall not be required to make payment to any Subordinate Indenture Bond Owner until such Subordinate Indenture Bonds shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

#### **REVENUE BONDHOLDERS MAY DIRECT PROCEEDINGS**

The owners of a majority in aggregate principal amount of the Revenue Bonds Outstanding shall, subject to the requirements of the Subordinate Indenture, 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 Subordinate Indenture, provided that such direction shall not be in conflict with any rule of law or the Subordinate 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 Subordinate Indenture 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 Section.

#### **LIMITATIONS ON RIGHTS OF SUBORDINATE INDENTURE BONDHOLDERS**

(a) No Subordinate Indenture Bondholder shall have any right to pursue any other remedy under the Subordinate Indenture or the Subordinate Indenture 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 the applicable Series of Subordinate Indenture 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 Subordinate Indenture Bonds Outstanding.

(b) The provisions of subsection (a) of this Section are conditions precedent to the exercise by any Subordinate Indenture Bondholder of any remedy under the Subordinate Indenture. The exercise of such rights is further subject to the provisions of the Subordinate Indenture. No one or more Subordinate Indenture Bondholders shall have any right in any manner whatever to enforce any right under the Subordinate Indenture, except in the manner provided in the Subordinate 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 Subordinate Indenture for the equal and ratable benefit of the Subordinate Indenture Bondholders of all Subordinate Indenture Bonds Outstanding.

#### **UNCONDITIONAL RIGHT OF SUBORDINATE INDENTURE BONDHOLDER TO RECEIVE PAYMENT**

Notwithstanding any other provision of the Subordinate Indenture, any Subordinate Indenture Bondholder shall have the absolute and unconditional right to receive payment of principal of, redemption premium, if any, and interest on the Subordinate Indenture Bonds on and after the due date thereof, and to institute suit for the enforcement of any such payment.

#### **RESTORATION OF RIGHTS AND REMEDIES**

If the Trustee or any Subordinate Indenture Bondholder has instituted any proceeding to enforce any right or remedy under the Subordinate Indenture, and any such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or such Subordinate Indenture Bondholder, then the Commission, the Trustee and the Subordinate Indenture Bondholders, subject to any determination in such proceeding, shall be restored to their former positions under the Subordinate Indenture, and all rights and remedies of the Trustee and the Subordinate Indenture Bondholders shall continue as though no such proceeding had been instituted.

#### **RIGHTS AND REMEDIES CUMULATIVE**

No right or remedy conferred under the Subordinate Indenture 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 Subordinate Indenture or now or hereafter existing at law, in equity or otherwise. The assertion or employment of any right or remedy under the Subordinate 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 Subordinate Indenture 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 the Subordinate Indenture or by law to the Trustee or the Subordinate Indenture Bondholders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or the Subordinate Indenture Bondholders, as the case may be.

## **WAIVER OF DEFAULTS**

(a) The holders of a majority in aggregate principal amount of each Series of Outstanding Subordinate Indenture Bonds may, by written notice to the Trustee and subject to the requirements of the Subordinate Indenture, waive any existing default or Event of Default with respect to that particular Series and its consequences, except an Event of Default under the relevant sections of the Subordinate Indenture. 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.

(b) Notwithstanding any provision of the Subordinate Indenture, in no event shall any Person, other than all of the affected Subordinate Indenture Bondholders, have the ability to waive any Event of Default under the Subordinate Indenture if such event results or may result, in the opinion of Bond Counsel, in interest on any of the Subordinate Indenture Bonds becoming includable in gross income for federal income tax purposes if the interest on such Subordinate Indenture 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 Subordinate 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 Subordinate Indenture Bondholder then Outstanding, provided, however, that except in the instance of an Event of Default under “Events of Default” sections (a) or (b), 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 any Class of Subordinate Indenture Bondholders, and provided, further, that notice to Subordinate Indenture Bondholders of any Event of Default under “Events of Default” sections (c) and (d) shall be subject to the provisions of the section “Priority of Payment Following Event of Default” and shall not be given until the grace period has expired.

## **THE TRUSTEE; QUALIFICATIONS OF TRUSTEE**

The Subordinate Indenture contains provisions relating to the appointment and duties of the Trustee. The Trustee under the Subordinate Indenture shall at all times be a trustee under the Subordinate Indenture which shall be a corporation or banking association organized and doing business under the laws of the U.S. 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 provisions of this Section, it shall resign promptly in the manner and with the effect specified in the Subordinate Indenture.

## **RESIGNATION OR REMOVAL OF TRUSTEE; APPOINTMENT OF SUCCESSOR TRUSTEE**

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

(b) 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 Subordinate Indenture Bondholder may petition a court of competent jurisdiction for the appointment of a successor Trustee.

(c) Prior to the occurrence and continuance of an Event of Default under the Subordinate 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 Subordinate Indenture Bonds [of each Class], 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 Subordinate Indenture, the holders of a majority in aggregate principal amount of each Class of Outstanding Subordinate Indenture 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 Subordinate Indenture Bonds and the successor Trustee.

(d) If at any time: (1) the Trustee shall cease to be eligible and qualified under the Subordinate Indenture and shall fail or refuse to resign after written request to do so by the Commission or the holder of any Subordinate Indenture 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 subsection (c) of this Section; or (ii) any holder of a Subordinate Indenture Bond then Outstanding may, on behalf of the holders of all Outstanding Subordinate Indenture Bonds, petition a court of competent jurisdiction for removal of the Trustee and appointment of a successor Trustee.

(e) 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 Subordinate Indenture Bonds then Outstanding as listed in the Subordinate Indenture Bond Register. Each such notice shall include the name and address of the applicable corporate trust office of the successor Trustee.

#### **NOTICES TO SUBORDINATE INDENTURE BONDHOLDERS; WAIVER**

Where the Subordinate Indenture provides for notice to Subordinate Indenture Bondholders of any event, such notice shall be sufficiently given (unless otherwise expressly provided in the Subordinate Indenture) if in writing and mailed, first class postage prepaid, to each Subordinate Indenture Bondholder affected by each event, at his or her address as it appears on the Subordinate Indenture Bond Register, not later than the latest date, and not earlier than the earliest date, prescribed for the first giving of such notice. In any case where notice to Subordinate Indenture Bondholders is given by mail, neither the failure to mail such notice, nor any default in any notice so mailed to any particular Subordinate Indenture Bondholder shall affect the sufficiency of such notice with respect to other Subordinate Indenture Bondholders. Where the Subordinate Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Subordinate Indenture Bondholders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

For so long as the Subordinate Indenture Bonds are registered solely in the name of the Securities Depository or its nominee, where the Subordinate Indenture provides for notice to the Subordinate Indenture Bondholders of the existence of, or during the continuance of, any Event of Default, the Trustee, at the expense of the Commission, shall: (a) establish a record date (the "Record Date") for determination of the Persons entitled to receive such notice; (b) request a securities position listing from the Securities Depository showing the Depository Participants holding positions in the Subordinate Indenture Bonds affected by such notice as of the Record Date for such notice; (c) mail, first class postage prepaid, copies of the notice as provided above to each Depository Participant identified in the securities position listing as holding a position in the Subordinate Indenture Bonds as of the Record Date for the notice, to each nationally recognized municipal securities information repository (within the meaning of Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934), and to any Person identified to the Trustee as a nonobjecting beneficial owner pursuant to the immediately following clause; (d) request that the Depository Participant retransmit the notice to all Persons for which it served as nominee on the Record Date, including nonobjecting beneficial owners, or retransmit the notice to objecting beneficial owners and provide a listing of nonobjecting beneficial owners for whom the Depository Participant served as nominee on the Record Date to the Trustee, (e) provide on behalf of the Commission and not as its agent, an undertaking to pay to any Depository Participant or other nominee (other than the Securities Depository) the reasonable costs of transmitting the notice to Persons for whom the Depository Participant acts as nominee; and (f) provide as many copies of the notice as may be requested by any nominee owner of the Subordinate Indenture Bonds. Any default in performance of the duties required by this paragraph shall not affect the sufficiency of notice to the Subordinate Indenture Bondholders given in accordance with the first paragraph of this Section, nor the validity of any action taken under the Subordinate Indenture in reliance on such notice to Subordinate Indenture Bondholders.

Where the Subordinate Indenture provides for notice to the Subordinate Indenture Bondholders of any event, the form of the notice shall prominently include a title block, separate from the body of the notice, which shall include the following information: (a) the complete title of the Subordinate Indenture Bonds; (b) the complete name of the Commission; (c) the entire nine digit CUSIP number of each affected maturity of the Subordinate Indenture Bonds (which may be

appended to such notice); (d) the Record Date, and (e) a summary that is no more than the maximum number of characters permitted by the Securities Depository.

Any notice required or permitted by the Subordinate Indenture to be given to the Securities Depository shall be given to it in the manner provided by this Section for giving notice to Subordinate Indenture Bondholders, and also shall be given in such electronic format as reasonably requested by the Securities Depository and shall be sent to: The Depository Trust Company, Proxy Department, 55 Water Street, 25th Floor, New York, New York 10041 0099, (teletype: (212) 855 5181), or such other address as may be specified by the Securities Depository in writing to the Trustee.

#### **SUPPLEMENTAL INDENTURES WITHOUT SUBORDINATE INDENTURE BONDHOLDERS' CONSENT**

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 Subordinate Indenture 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 Subordinate Indenture or in any Supplemental Indenture;

(b) provide for earlier or larger deposits to the Revenue Bonds Account or Guaranteed Bonds Account of the Debt Service Fund;

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

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

(e) by action taken on or before the issuance by the Commission of the first Series or Sub-Series of Guaranteed Bonds, modify, alter, supplement or amend the section "Covenants as to Act 44 – Guaranteed Bonds";

(f) permit the appointment of a co trustee under the Subordinate Indenture;

(g) modify, alter, supplement or amend the Subordinate Indenture in such manner as shall permit the qualification of the Subordinate Indenture, if required, under the Trust Indenture Act of 1939, the Securities Act of 1933, state securities laws or any similar statute;

(h) cure formal defects or omissions that, if not cured, would cause interest on Subordinate Indenture Bonds to be includible in gross income for federal income tax purposes;

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

(j) identify particular characteristics of Subordinate Indenture Bonds for purposes not inconsistent with the Subordinate Indenture including, without limitation, credit or liquidity support, remarketing, serialization, mandatory tender for purchase and defeasance;

(k) implement the issuance of Additional Subordinate Indenture Bonds, or the incurrence of other Parity Obligations or of Subordinated Indebtedness permitted under the Subordinate Indenture; or

(l) if all Subordinate Indenture Bonds in a Series are Book Entry Bonds, amend, modify, alter or replace any Letter of Representations as provided in the Subordinate 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 Subordinate Indenture.

#### **SUPPLEMENTAL INDENTURES REQUIRING SUBORDINATE INDENTURE 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 Subordinate Indenture, but only with the written consent, given as provided in the section "Consents of Subordinate Indenture Bondholders and Opinions," of the holders of at least a majority in aggregate principal amount of the Revenue Bonds Outstanding at the time such consent is given, and in case such modification adversely affects the holders of the Guaranteed Bonds, of PennDot; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Subordinate Indenture Bonds so affected remain Outstanding, the consent of the holders of such Subordinate Indenture Bonds shall not be required and such Subordinate Indenture Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Subordinate Indenture Bonds under this Section. Notwithstanding the foregoing, no modification or amendment contained in any such Supplemental Indenture shall permit any of the following, without the consent of each Subordinate Indenture Bondholder whose rights are affected thereby:

- (a) a change in the terms of stated maturity or redemption of any Subordinate Indenture Bond or of any installment of interest thereon;
- (b) a reduction in the principal amount of or redemption premium on any Subordinate Indenture Bond or in the rate of interest thereon or a change in the coin or currency in which such Subordinate Indenture 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 Subordinate Indenture) the lien or pledge granted to the Subordinate Indenture Bondholders under the Subordinate 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 Subordinate Indenture Bond or Subordinate Indenture Bonds over any other Subordinate Indenture Bond or Subordinate Indenture Bonds, except to the extent permitted under the Subordinate Indenture;
- (e) a reduction in the aggregate principal amount of Subordinate Indenture Bonds of which the consent of the Subordinate Indenture Bondholders is required to effect any such modification or amendment; or
- (f) a change in the provisions of this Section.

Notwithstanding the foregoing, the holder of any Subordinate Indenture Bond may extend the time for payment of the principal of or interest on such Subordinate Indenture Bond; provided, however, that upon the occurrence of an Event of Default, funds available under the Subordinate Indenture for the payment of the principal of and interest on the Subordinate Indenture 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 this Section shall be given to the Subordinate Indenture Bondholders promptly following the execution thereof.

#### **CONSENTS OF SUBORDINATE INDENTURE BONDHOLDERS AND OPINIONS**

Each Supplemental Indenture executed and delivered pursuant to the provisions of the section "Supplemental Indentures Requiring Subordinate Indenture Bondholders' Consent" shall take effect only when and as provided in this Section. A copy of such Supplemental Indenture (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Subordinate Indenture Bondholders for their consent thereto in form satisfactory to the Trustee, shall be sent by the Trustee to Subordinate Indenture 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 hereinafter. Such Supplemental Indenture shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of Subordinate Indenture Bondholders of the percentage of Subordinate Indenture Bonds specified in the section "Supplemental Indentures Requiring Subordinate Indenture Bondholders' Consent" given as provided in the Subordinate Indenture, and (b) the opinion of Counsel described in the Subordinate Indenture. Any such consent shall be binding upon the Subordinate Indenture Bondholder giving such consent and upon any subsequent holder of such Subordinate Indenture Bonds and of any Subordinate Indenture Bonds issued in

exchange therefor or in lieu thereof (whether or not such subsequent Subordinate Indenture Bondholder has notice thereof), unless such consent is revoked in writing by the Subordinate Indenture Bondholder giving such consent or a subsequent holder of such Subordinate Indenture Bonds by filing such revocation with the Trustee prior to the date the Trustee receives the material required in subsections (a) and (b) of this Section.

Notwithstanding anything else in the Subordinate Indenture, if a Supplemental Indenture is to become effective under the section "Supplemental Indentures Requiring Subordinate Indenture Bondholders' Consent" on the same date as the date of issuance of Additional Subordinate Indenture Bonds, the consents of the underwriters or purchasers of such Additional Subordinate Indenture Bonds shall be counted for purposes of the section "Supplemental Indentures Requiring Subordinate Indenture Bondholders' Consent" and this Section.

## **DISCHARGE**

If (a) the principal of any Subordinate Indenture Bonds and the interest due or to become due thereon, together with any redemption premium required by redemption of any of the Subordinate Indenture Bonds prior to maturity, shall be paid, or is caused to be paid, or is provided for under the Subordinate Indenture, at the times and in the manner to which reference is made in the Subordinate Indenture Bonds, according to the true intent and meaning thereof, or the outstanding Subordinate Indenture Bonds shall have been paid and discharged in accordance with the Subordinate Indenture, and (b) all of the covenants, agreements, obligations, terms and conditions of the Commission under the Subordinate Indenture shall have been kept, performed and observed and there shall have been paid to the Trustee, the Subordinate Indenture 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 Subordinate 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 Subordinate 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 Subordinate Indenture except for amounts required to pay such Subordinate Indenture Bonds or held pursuant to the section "Rebate Fund."

## **DEFEASANCE; DEPOSIT OF FUNDS FOR PAYMENT OF SUBORDINATE INDENTURE BONDS**

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 Subordinate Indenture Bond or Subordinate Indenture 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 Subordinate Indenture Bonds, all liability of the Commission with respect to such Subordinate Indenture Bond or Subordinate Indenture Bonds shall cease, such Subordinate Indenture Bond or Subordinate Indenture Bonds shall be deemed not to be Outstanding under the Subordinate Indenture and the holder or holders of such Subordinate Indenture Bond or Subordinate Indenture 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 Subordinate Indenture Bond or Subordinate Indenture 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 Subordinate Indenture 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 Subordinate Indenture 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 the Subordinate Indenture have been satisfied and (2) that defeasance of any Subordinate Indenture Bonds will not cause interest on the Subordinate Indenture 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 Subordinate Indenture 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 any Subordinate Indenture Bonds shall be deemed to be paid under the Subordinate Indenture, as aforesaid, it shall no longer be secured by or entitled to the benefits of the Subordinate Indenture, except for the purposes of any such payment from such money or Defeasance Obligations.

## **NOTICE OF DEFEASANCE**

(a) In case any of the Subordinate Indenture Bonds, for the payment of which moneys or Defeasance Obligations have been deposited with the Trustee pursuant to the Subordinate Indenture, 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 Subordinate Indenture Bonds on the redemption date for such Subordinate Indenture Bonds.

(b) In addition to the foregoing notice, in the event such Subordinate Indenture 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 Subordinate Indenture Bondholders that the deposit required by the Subordinate Indenture has been made with the Trustee and that said Subordinate Indenture Bonds are deemed to have been paid in accordance the Subordinate Indenture 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 Subordinate Indenture Bonds; such further notice shall be given promptly following the making of the deposit required by the Subordinate Indenture; and such further notice also shall be given in the manner set forth in the Subordinate 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 Subordinate Indenture, notice thereof shall be sent to Subordinate Indenture Bondholders of such Subordinate Indenture Bonds as soon as practicable and not later than any notice required by subsections (a) or (b) of this Section.

## **LIMITATION OF LIABILITY OF OFFICIALS OF THE COMMISSION**

No covenant, stipulation, obligation or agreement contained herein shall be deemed to be a covenant, stipulation, obligation or agreement of any present or future member, agent or employee of the Commission in his individual capacity, and neither the members of the Commission nor any official executing the Subordinate Indenture Bonds shall be liable personally on the Subordinate Indenture Bonds or be subject to any personal liability or accountability by reason of the issuance thereof. Notwithstanding anything to the contrary contained herein, the Trustee, the Subordinate Indenture Bondholders and any other party entitled to seek payment from the Commission under or to enforce the Subordinate Indenture and the Subordinate Indenture Bonds will be entitled to look solely to the Trust Estate, and such collateral, if any, as may now or hereafter be given to secure the payment of the obligations of the Commission under the Subordinate Indenture and the Subordinate Indenture Bonds, and no other property or assets of the Commission or any officer or director of the Commission shall be subject to levy, execution or other enforcement procedure for the satisfaction of the remedies hereunder, or for any payment required to be made under the Subordinate Indenture and the Subordinate Indenture Bonds, or for the performance of any of the covenants or warranties contained herein.

## **RIGHTS OF THE BOND INSURER**

The Supplemental Indenture No. 1 to the Subordinate Indenture contains a number of provisions required by the Bond Insurer. Such provisions, among other things, grant the Bond Insurer the right to receive notices of certain events and other information, the right to consent to actions, valuations, trustee related provisions, defeasance, the right to control certain remedies granted to the owners of the 2008 Bonds or the Trustee for the benefit of such owner, and recognition as a third-party beneficiary thereunder. The Bond Insurer shall be deemed to be the holder of the 2008 Bonds for purposes of (a) exercising all remedies and directing the Trustee to take actions or for any other purposes following an Event of Default, and (b) granting any consent, direction or approval or taking any action permitted by or required under the Subordinate Indenture to be granted or taken by the holders of the 2008 Bonds.



## APPENDIX D

### SECURITIES DEPOSITORY

#### Securities Depository

Portions of the following information concerning DTC and DTC's book-entry only system have been obtained from DTC. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Commission and the Underwriters believe to be reliable; however, the Commission and the Underwriters take no responsibility for the accuracy thereof and make no representation as to the accuracy of such information.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2008 Bonds. The 2008 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the 2008 Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of 2008 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2008 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2008 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. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2008 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 2008 Bonds, except in the event that use of the book-entry system for the 2008 Bonds is discontinued.

To facilitate subsequent transfers, all 2008 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 2008 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2008 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2008 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 2008 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2008 Bonds, such as redemptions, defaults, and proposed amendments to the Subordinate Indenture. For example, Beneficial Owners of 2008 Bonds may wish to ascertain that the nominee holding the 2008 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them. Redemption notices shall be sent to DTC. If less than all of the 2008 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2008 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2008 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal or redemption price of and interest on the 2008 Bonds will be paid to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commission or the Trustee, as applicable, 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 nor its nominee, the Trustee, or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal or redemption price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

So long as Cede & Co. is the registered owner of the 2008 Bonds, as nominee of DTC, references herein to the bondholders or registered owners of the 2008 Bonds means Cede & Co., not the Beneficial Owners of the 2008 Bonds.

### **Discontinuation of Book-Entry-Only System**

DTC may determine to discontinue providing its service with respect to the 2008 Bonds at any time by giving reasonable notice to the Commission and the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

### **Global Clearance Procedures**

The information that follows is based solely on information obtained from Clearstream or Euroclear, as appropriate. No representation is made as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. The Commission has not entered into any arrangement with Clearstream and Euroclear, and does not, by the inclusion of the following information in this Official Statement or otherwise, intend to make any offering of the 2008 Bonds outside of the United States. The following information has been included at the request of the Underwriters.

General. The 2008 Bonds initially will be registered in the name of Cede & Co. as registered owner and nominee for DTC, which will act as securities depository for the 2008 Bonds. Purchases of the 2008 Bonds will be in book-entry form only, as more fully described below. Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and/or Euroclear's names on the books of their respective U.S. Depositories, which, in turn, hold such positions in customers' securities accounts in the U.S. Depositories' names on the books of DTC. Citibank, N.A. acts as the U.S. depository for Clearstream and JPMorgan Chase Bank acts as the U.S. depository for Euroclear.

The Commission cannot and does not give any assurances that DTC, DTC participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants will distribute to the Beneficial Owners of the 2008 Bonds: (i) payments of principal and interest payments (including redemption payments) with respect to the 2008 Bonds; (ii) confirmation of ownership interest in the 2008 Bonds; or (iii) notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2008 Bonds, or that they will do so on a timely basis, or that DTC, the DTC participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants will serve and act in the manner described in this Official Statement.

The Commission will have no responsibility or obligations to DTC, the DTC participants, Euroclear, Euroclear Participants, Clearstream, Clearstream customers or the Beneficial Owners with respect to: (i) the accuracy of any records maintained by DTC or any DTC participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants; (ii) the payment by DTC or any DTC participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants of any amount due to any Beneficial Owner in respect of principal and interest payments (including redemption payments) on the 2008 Bonds; (iii) the delivery by DTC or any DTC participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants of any notice to any Beneficial Owner that is required or permitted to be given to owners under the terms of the 2008 Bonds; or (iv) any consent given or other action taken by DTC as registered holder of the 2008 Bonds.

The information concerning Clearstream and Euroclear has been derived from information obtained from Clearstream and Euroclear and other sources. Neither the Commission nor the Underwriters make any representation or warranty regarding the accuracy or completeness thereof.

Clearstream. Clearstream Banking, société anonyme, 42 Avenue J.F. Kennedy, L-1855 Luxembourg ("Clearstream, Luxembourg"), was incorporated in 1970 as "Cedel S.A.", a company with limited liability under Luxembourg law (a société anonyme). Cedel S.A. subsequently changed its name to Cedelbank. On 10 January 2000, Cedelbank's parent company, Cedel International, société anonyme ("CI") merged its clearing, settlement and custody business with that of Deutsche Börse AG ("DBAG"). The merger involved the transfer by CI of substantially all of its assets and liabilities (including its shares in Cedelbank), and the transfer by DBAG of its shares in Deutsche Börse Clearing (DBC), to a new Luxembourg company, which with effect 14 January 2000 was renamed Clearstream International, société anonyme, and was then 50% owned by CI and 50% owned by DBAG.

Following this merger, the subsidiaries of Clearstream International were also renamed to give them a cohesive brand name. On 18 January 2000, Cedelbank was renamed "Clearstream Banking, société anonyme", and Cedel Global Services was renamed "Clearstream Services, société anonyme". On 17 January 2000, Deutsche Börse Clearing AG was renamed "Clearstream Banking AG".

Today Clearstream International is 100% owned by DBAG. The shareholders of DBAG are comprised of mainly banks, securities dealers and financial institutions.

Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book-entry changes in accounts of Clearstream, Luxembourg customers, thereby eliminating the need for physical movement of certificates.

Transactions may be settled by Clearstream, Luxembourg in any of 36 currencies, including United States Dollars. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg also deals with domestic securities markets in over 30 countries through established depository and custodial relationships.

Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier, "CSSF", and the Banque Centrale du Luxembourg ("BCL") which supervise and oversee the activities of Luxembourg banks. Clearstream, Luxembourg's customers are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Clearstream, Luxembourg's U.S. customers are limited to securities brokers and dealers and banks. Currently, Clearstream, Luxembourg has approximately 2,000 customers located in over 80 countries, including all major European countries, Canada, and the United States. Indirect access to Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of Clearstream, Luxembourg. Clearstream, Luxembourg has established an electronic bridge with Euroclear Bank S.A./N.V. as the Operator of the Euroclear System (the "Euroclear Operator") in Brussels to facilitate settlement of trades between Clearstream, Luxembourg and the Euroclear Operator.

Euroclear Bank. Euroclear Bank S.A./N.V. ("Euroclear Bank") holds securities and book-entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and Participants of certain other securities intermediaries through electronic book-entry changes in accounts of such Participants or other securities intermediaries.

Euroclear Bank provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Euroclear Participants are investment banks, securities brokers and dealers, banks, central banks, supranationals, custodians, investment managers, corporations, trust companies and certain other organizations. Certain of the managers or underwriters for this offering, or other financial entities involved in this offering, may be Euroclear Participants.

Non-Participants in the Euroclear System may hold and transfer book-entry interests in the 2008 Bonds through accounts with a Participant in the Euroclear System or any other securities intermediary that holds a book-entry interest in the 2008 Bonds through one or more securities intermediaries standing between such other securities intermediary and Euroclear Bank.

*Clearance and Settlement.* Although Euroclear Bank has agreed to the procedures provided below in order to facilitate transfers of securities among Participants in the Euroclear System, and between Euroclear Participants and Participants of other intermediaries, it is under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time.

*Initial Distribution.* Investors electing to acquire 2008 Bonds through an account with Euroclear Bank or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of new issues of securities. 2008 Bonds to be acquired against payment through an account with Euroclear Bank will be credited to the securities clearance accounts of the respective Euroclear Participants in the securities processing cycle for the business day following the settlement date for value as of the settlement date, if against payment.

*Secondary Market.* Investors electing to acquire, hold or transfer 2008 Bonds through an account with Euroclear Bank or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of secondary market transactions in securities. Please be aware that Euroclear Bank will not monitor or enforce any transfer restrictions with respect to the 2008 Bonds.

*Custody.* Investors who are Participants in the Euroclear System may acquire, hold or transfer interests in the 2008 Bonds by book-entry to accounts with Euroclear Bank. Investors who are not Participants in the Euroclear System may acquire, hold or transfer interests in the 2008 Bonds by book-entry to accounts with a securities intermediary who holds a book-entry interest in the 2008 Bonds through accounts with Euroclear Bank.

*Custody Risk.* Investors that acquire, hold and transfer interests in the 2008 Bonds by book-entry through accounts with Euroclear Bank or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the individual securities.

Euroclear Bank has advised as follows:

Under Belgian law, investors that are credited with securities on the records of Euroclear Bank have a co-property right in the fungible pool of interests in securities on deposit with Euroclear Bank in an amount equal to the amount of interests in securities credited to their accounts. In the event of the insolvency of Euroclear Bank, Euroclear Participants would have a right under Belgian law to the return of the amount and type of interests in securities credited to their accounts with Euroclear Bank. If

Euroclear Bank did not have a sufficient amount of interests in securities on deposit of a particular type to cover the claims of all Participants credited with such interests in securities on Euroclear Bank's records, all Participants having an amount of interests in securities of such type credited to their accounts with Euroclear Bank would have the right under Belgian law to the return of their pro-rata share of the amount of interests in securities actually on deposit.

Under Belgian law, Euroclear Bank is required to pass on the benefits of ownership in any interests in securities on deposit with it (such as dividends, voting rights and other entitlements) to any person credited with such interests in securities on its records.

Initial Settlement; Distributions; Actions Upon Behalf of Owners. All of the 2008 Bonds will initially be registered in the name of Cede & Co., the nominee of DTC. Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and/or Euroclear's names on the books of their respective U.S. Depository, which, in turn, holds such positions in customers' securities accounts in its U.S. Depository's name on the books of DTC. Citibank, N.A. acts as depository for Clearstream and JPMorgan Chase Bank acts as depository for Euroclear (the "U.S. Depositories").

Holders of the 2008 Bonds may hold their 2008 Bonds through DTC (in the United States) or Clearstream or Euroclear (in Europe) if they are participants of such systems, or directly through organizations that are participants in such systems.

Investors electing to hold their 2008 Bonds through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional EuroBonds in registered form. Securities will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Distributions with respect to the 2008 Bonds held beneficially through Clearstream will be credited to the cash accounts of Clearstream customers in accordance with its rules and procedures, to the extent received by its U.S. Depository. Distributions with respect to the 2008 Bonds held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions, to the extent received by its U.S. Depository. Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations.

Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by an owner of the 2008 Bonds on behalf of a Clearstream customer or Euroclear Participant only in accordance with the relevant rules and procedures and subject to the U.S. Depository's ability to effect such actions on its behalf through DTC.

Secondary Market Trading. Secondary market trading between Participants (other than U.S. Depositories) will be settled using the procedures applicable to U.S. corporate debt obligations in same-day funds.

Secondary market trading between Euroclear Participants and/or Clearstream customers will be settled using the procedures applicable to conventional EuroBonds in same-day funds.

When securities are to be transferred from the account of a Participant (other than U.S. Depositories) to the account of a Euroclear Participant or a Clearstream customer, the purchaser must send instructions to the applicable U.S. Depository one business day before the settlement date. Euroclear or Clearstream, as the case may be, will instruct its U.S. Depository to receive the securities against payment. Its U.S. Depository will then make payment to the Participant's account against delivery of the

securities. After settlement has been completed, the securities will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Euroclear participant's or Clearstream customers' accounts. Credit for the securities will appear on the next day (European time) and cash debit will be back-valued to, and the interest on the 2008 Bonds will accrue from the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (i.e., the trade fails), the Euroclear or Clearstream cash debit will be valued instead as of the actual settlement date.

Euroclear Participants and Clearstream customers will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream. Under this approach, they may take on credit exposure to Euroclear or Clearstream until the securities are credited to their accounts one day later.

As an alternative, if Euroclear or Clearstream has extended a line of credit to them, Participants/customers can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear Participants or Clearstream customers purchasing securities would incur overdraft charges for one day, assuming they cleared the overdraft when the securities were credited to their accounts. However, interest on the securities would accrue from the value date. Therefore, in many cases, the investment income on securities earned during that one day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each Participant's/customer's particular cost of funds.

Because the settlement is taking place during New York business hours, Participants can employ their usual procedures for sending securities to the applicable U.S. Depository for the benefit of Euroclear Participants or Clearstream customers. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the Participant, a cross-market transaction will settle no differently from a trade between two Participants.

Due to time zone differences in their favor, Euroclear Participants and Clearstream customers may employ their customary procedure for transactions in which securities are to be transferred by the respective clearing system, through the applicable U.S. Depository to another Participant's. In these cases, Euroclear will instruct its U.S. Depository to credit the securities to the Participant's account against payment. The payment will then be reflected in the account of the Euroclear Participant or Clearstream customer the following business day, and receipt of the cash proceeds in the Euroclear Participants' or Clearstream customers' accounts will be back-valued to the value date (which would be the preceding day, when settlement occurs in New York). If the Euroclear Participant or Clearstream customer has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value date (i.e., the trade fails), receipt of the cash proceeds in the Euroclear Participant's or Clearstream customer's accounts would instead be valued as of the actual settlement date.

Procedures May Change. Although DTC, Clearstream and Euroclear have agreed to these procedures in order to facilitate transfers of securities among DTC and its Participants, Clearstream and Euroclear, they are under no obligation to perform or continue to perform these procedures and these procedures may be discontinued and may be changed at any time by any of them.

**THE COMMISSION, THE TRUSTEE AND THE UNDERWRITERS CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT**

**PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE 2008 BONDS (1) PAYMENTS OF PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2008 BONDS (2) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE 2008 BONDS OR (3) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE 2008 BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SEC AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH ITS PARTICIPANTS ARE ON FILE WITH DTC.**

**NONE OF THE COMMISSION, THE TRUSTEE OR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR, EUROCLEAR PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR OR EUROCLEAR PARTICIPANTS; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON 2008 BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE SUBORDINATE INDENTURE; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE 2008 BONDS, OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE 2008 BONDS.**



## APPENDIX E

### FORM OF OPINION OF BOND COUNSEL

April 29, 2008

To the Purchasers of  
the Below-Referenced 2008A Bonds:

RE: \$244,855,000 Pennsylvania Turnpike Commission  
Subordinated Turnpike Revenue Bonds, Series 2008A

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance and sale by the Pennsylvania Turnpike Commission (the "Commission") of its \$244,855,000 principal amount of Subordinated Turnpike Revenue Bonds, Series 2008A, consisting of \$176,565,000 principal amount of Sub-series A-1 (the "A-1 Bonds") and \$68,290,000 principal amount of Sub-series A-2 (Federally Taxable) (the "A-2 Bonds", and, collectively with the A-1 Bonds, the "2008A Bonds") pursuant to the Trust Indenture dated as of April 1, 2008 (the "Subordinated Trust Indenture"), as supplemented on the date hereof by Supplemental Trust Indenture No. 1, dated as of April 1, 2008 (the "Supplemental Indenture", and together with the Subordinated Trust Indenture, the "Indenture"), between the Commission and Commerce Bank, National Association, as Trustee (the "Trustee"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Indenture.

We have examined (i) an executed copy of each of the Subordinated Trust Indenture and the Supplemental Indenture, (ii) the forms of the A-1 Bonds and A-2 Bonds, and (iii) such constitutional and statutory provisions and such other resolutions, certificates, instruments and documents as we have deemed necessary or appropriate in order to enable us to render an informed opinion as to matters set forth herein.

In rendering this opinion, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As to any facts material to our opinion, we have, when relevant facts were not independently established, relied upon the aforesaid instruments, certificates and documents without undertaking to verify the same by independent investigation.

The Commission covenants in the Indenture to maintain the exclusion of interest on the A-1 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 A-1 Bonds which would cause the A-1 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:

(a) 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.

(b) Each of the Subordinated Trust Indenture and the Supplemental Trust 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.

(c) The 2008A 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 Commission Payments and other sources provided therefor in the Indenture. Commission Payments are payable from funds designated by the Commission for release from the General Reserve Fund established under the Commission’s Amended and Restated Trust Indenture dated as of March 1, 2001, as amended and supplemented (the “Restated Indenture”). The Restated Indenture provides that deposits for the payment of Bonds, other Parity Obligations and Subordinated Indebtedness issued or incurred thereunder shall be funded from Revenues (as defined in the Restated Indenture) prior to the transfer of Revenues to the General Reserve Fund. Funds, while held in the General Reserve Fund, remain subject to the lien of the Restated Indenture.

(d) The 2008A Bonds are exempt from personal property taxes in Pennsylvania and the interest on the 2008A Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax.

(e) Under existing statutes, regulations, rulings and court decisions, interest on the A-1 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 A-1 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 A-1 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 A-1 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 A-1 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 A-1 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 A-1 Bonds, the representations contained in the Indenture and the representations of the Commission and the Pennsylvania Department of Transportation (“PennDOT”) provided in the Tax Regulatory Agreement that are intended to comply with the provisions of the Code relating to actions to be taken by the Commission and PennDOT in respect of the A-1 Bonds after the issuance thereof to the extent necessary to effect or maintain the federal tax-exempt status of the interest on the A-1 Bonds. These covenants and representations relate to, inter alia, the use of proceeds of the A-1 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 2008A Bonds and the 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, as supplemented, or the Official Statement prepared in respect of the 2008A 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 2008A Bonds and may not be relied on by any other person or entity without our express prior written consent. The opinions set forth herein are given solely as of the date hereof, and we do not undertake to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

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**APPENDIX F**

**SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY**

[See Attached Statement]

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Assured Guaranty Corp.  
1325 Avenue of the Americas  
New York, NY 10019  
t. 212.974.0100  
www.assuredguaranty.com

## Financial Guaranty Insurance Policy

Issuer:

Policy No.:

Obligations:

Premium:

Effective Date:

Assured Guaranty Corp., a Maryland corporation ("**Assured Guaranty**"), in consideration of the payment of the Premium and on the terms and subject to the conditions of this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the "**Trustee**") or the paying agent (the "**Paying Agent**") for the Obligations (as set forth in the documentation providing for the issuance of and securing the Obligations) for the benefit of the Holders, that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

Assured Guaranty will make such Insured Payments to the Trustee or the Paying Agent on the later to occur of (i) the date applicable principal or interest becomes Due for Payment, or (ii) the Business Day next following the day on which Assured Guaranty shall have Received a completed Notice of Nonpayment. If a Notice of Nonpayment by Assured Guaranty is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and Assured Guaranty shall promptly give notice to the Trustee or the Paying Agent. Upon receipt of such notice, the Trustee or the Paying Agent may submit an amended Notice of Nonpayment. The Trustee or the Paying Agent will disburse the Insured Payments to the Holders only upon receipt by the Trustee or the Paying Agent, in form reasonably satisfactory to it of (i) evidence of the Holder's right to receive such payments, and (ii) evidence, including without limitation any appropriate instruments of assignment, that all of the Holder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Assured Guaranty. Upon and to the extent of such disbursement, Assured Guaranty shall become the Holder of the Obligations, any appurtenant coupon thereto and right to receipt of payment of principal thereof or interest thereon, and shall be fully subrogated to all of the Holder's right, title and interest thereunder, including without limitation the right to receive payments in respect of the Obligations. Payment by Assured Guaranty to the Trustee or the Paying Agent for the benefit of the Holders shall discharge the obligation of Assured Guaranty under this Policy to the extent of such payment.

This Policy is non-cancelable by Assured Guaranty for any reason. The Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment premium or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Assured Guaranty, nor against any risk other than Nonpayment.

Except to the extent expressly modified by any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "**Avoided Payment**" means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. "**Business Day**" means any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee, the Paying Agent or Assured Guaranty are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York or in the State of Maryland. "**Due for Payment**" means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest. "**Holder**" means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations. "**Insured Payments**" means that portion of the principal of and interest on the Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. "**Nonpayment**" means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term "Nonpayment" in respect of an Obligation includes any Avoided Payment. "**Receipt**" or "**Received**" means actual receipt or notice of or, if notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of the person to whom the notice was given. Notices to Assured Guaranty may be mailed by registered mail or personally delivered or telecopied to it at 1325 Avenue of the Americas, New York, New York 10019, Telephone Number: (212) 974-0100, Facsimile Number: (212) 581-3268, Attention: Risk Management Department - Public Finance Surveillance, with a copy to the General Counsel, or to such other address as shall be specified by Assured Guaranty to the Trustee or the Paying Agent in writing. A Notice of Nonpayment will be deemed to be Received by Assured Guaranty on a given Business Day if it is Received prior to 12:00 noon (New York City time) on such Business Day; otherwise it will be deemed Received on the

next Business Day. "Term" means the period from and including the Effective Date until the earlier of (i) the maturity date for the Obligations, or (ii) the date on which the Issuer has made all payments required to be made on the Obligations.

At any time during the Term of this Policy, Assured Guaranty may appoint a fiscal agent (the "Fiscal Agent") for purposes of this Policy by written notice to the Trustee or the Paying Agent, specifying the name and notice address of such Fiscal Agent. From and after the date of Receipt of such notice by the Trustee or the Paying Agent, copies of all notices and documents required to be delivered to Assured Guaranty pursuant to this Policy shall be delivered simultaneously to the Fiscal Agent and to Assured Guaranty. All payments required to be made by Assured Guaranty under this Policy may be made directly by Assured Guaranty or by the Fiscal Agent on behalf of Assured Guaranty. The Fiscal Agent is the agent of Assured Guaranty only, and the Fiscal Agent shall in no event be liable to the Trustee or the Paying Agent for any acts of the Fiscal Agent or any failure of Assured Guaranty to deposit, or cause to be deposited, sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Assured Guaranty hereby waives, in each case for the benefit of the Holders only, all rights and defenses of any kind (including, without limitation, the defense of fraud in the inducement or in fact or any other circumstance that would have the effect of discharging a surety, guarantor or any other person in law or in equity) that may be available to Assured Guaranty to deny or avoid payment of its obligations under this Policy in accordance with the express provisions hereof. Nothing in this paragraph will be construed (i) to waive, limit or otherwise impair, and Assured Guaranty expressly reserves, Assured Guaranty's rights and remedies, including, without limitation, its right to assert any claim or to pursue recoveries (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, in each case, whether directly or acquired as a subrogee, assignee or otherwise, subsequent to making any payment to the Trustee or the Paying Agent, in accordance with the express provisions hereof, and/or (ii) to require payment by Assured Guaranty of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Policy.

This Policy (which includes each endorsement hereto) sets forth in full the undertaking of Assured Guaranty with respect to the subject matter hereof, and may not be modified, altered or affected by any other agreement or instrument, including, without limitation, any modification thereto or amendment thereof. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, Assured Guaranty has caused this Policy to be affixed with its corporate seal, to be signed by its duly authorized officer, and to become effective and binding upon Assured Guaranty by virtue of such signature.

**ASSURED GUARANTY CORP.**

(SEAL)

By: \_\_\_\_\_  
[Insert Authorized Signatory Name]  
[Insert Authorized Signatory Title]

Signature attested to by:

\_\_\_\_\_  
Counsel



## APPENDIX G

### DEFINED TERMS CONCERNING THE SENIOR INDENTURE AND THE SENIOR REVENUE BONDS

*The following is a list of definitions derived from the Senior Indenture concerning the Senior Revenue Bonds and the operation of the Senior Indenture. This summary of such terms does not purport to be complete or definitive and is subject to all of the terms and provisions of the Senior Indenture, a copy of which will be available at the corporate trust office of the Trustee. In addition to words and terms defined elsewhere in this Official Statement, the following words and terms used in this Official Statement and this Appendix G shall have the following meanings unless the context clearly indicates otherwise.*

"Additional Senior Revenue Bonds" means Senior Revenue Bonds of any series of bonds authorized to be issued under the Senior Indenture.

"Applicable Long-Term Indebtedness" shall mean all Senior Revenue Bonds, Additional Senior Revenue Bonds, Senior Reimbursement Obligations and obligations of the Commission under Senior Indenture Approved Swap Agreements, to the extent the same constitute Senior Indenture Long-Term Indebtedness, and excludes Senior Indenture Subordinated Indebtedness.

"Credit Facility" means 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 Senior Revenue Bonds pursuant to the provisions of a Supplemental Indenture under which such Senior Revenue Bonds are issued.

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

"General Reserve Fund" means the " General Reserve Fund" created by Section 503 of the Senior Indenture.

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

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

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

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

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

(b) Senior Revenue Bonds which are deemed to be no longer Outstanding in accordance with the Senior Indenture; and

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

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

"Prior Senior Indenture" means that certain Indenture of Trust dated as of July 1, 1986 between the Commission and the Trustee, 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 and a Twelfth Supplemental Trust Indenture dated as of March 1, 2001.

"Revenues" means (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 Senior Trust Estate pursuant to a Senior 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 Senior Indenture Revenue Fund pursuant to the Senior Indenture. As more fully provided in the Senior Indenture, 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.

"Senior Indenture Annual Capital Budget" means the capital budget adopted by the Commission pursuant to the Senior Indenture.

"Senior Indenture Annual Debt Service" means (a) the amount of principal and interest paid or payable with respect to Senior Revenue Bonds in a Fiscal Year plus (b) Senior 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 (c) the amounts, if any, paid or payable by the Commission in such Fiscal Year with respect to Senior Indenture Approved Swap Agreements, minus (d) the amounts, if any, paid or payable to the Commission in such Fiscal Year with respect to Senior Indenture Approved Swap Agreements, provided that the difference between the amounts described in clauses (c) and (d) 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 Senior Indenture Annual Debt Service becoming due in any Fiscal Year:

(1) in determining the principal amount paid or payable with respect to Senior Revenue Bonds or Senior 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;

(2) if any of the Indebtedness or proposed Indebtedness constitutes Senior Indenture Balloon Indebtedness, then such amounts thereof as constitute Senior Indenture 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 herein 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 judgment, the Commission will be able to refinance such Senior Indenture Balloon Indebtedness, in which event the Senior Indenture Balloon Indebtedness shall be amortized over the term of the Indebtedness expected to refinance such Senior Indenture Balloon Indebtedness and shall bear the interest rate specified in the certificate of the Financial Consultant;

(3) 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.

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

"Senior Indenture Annual Operating Budget" means the budget adopted by the Commission pursuant to the Senior Indenture.

"Senior Indenture Approved Swap Agreement" means a Swap Agreement the payments of the Commission made or received with respect thereto are to be taken into account in any calculation of Senior Indenture Annual Debt Service under the Senior Indenture and for which the Commission has filed with the Trustee:

(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 Senior 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 Senior 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 Senior Revenue Bonds for federal income tax purposes; provided that if the Swap Agreement relates to Senior Revenue Bonds being issued and the Swap Agreement is entered into prior to the issuance of such Senior Revenue Bonds, the portion of the opinion of Bond Counsel referring to tax-exempt status of the Senior Revenue Bonds need not be delivered until such Senior Revenue Bonds are issued;

(d) A certificate of the Commission, signed by a Commission Official, that the Commission is not under default under the Senior 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 Senior Revenue Bonds by the Rating Agency;

(f) Evidence that the reports or certificates required under the terms of the Senior Indenture for the issuance of additional Senior Indenture Long-Term Indebtedness have been delivered; and

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

"Senior Indenture Assumed Variable Rate" means in the case of (a) any outstanding Senior Indenture Variable Rate Indebtedness, the average interest rate on such Indebtedness for the most recently completed 12-month period; and (b) proposed Senior Indenture Variable Rate Indebtedness, (1) 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 (2) in the case of Senior Revenue Bonds not described in clause (1), the London Interbank Offered Rate ("LIBOR") most closely resembling the reset period for the Senior Indenture 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.

"Senior Indenture Balloon Indebtedness" means Senior Indenture 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 Senior Indenture Balloon Indebtedness if the Senior Trustee is provided a certificate of a Commission Official certifying that such Indebtedness is not to be treated as Senior Indenture Balloon Indebtedness (because, by way of example, such Indebtedness is intended to serve as "wrap around" Indebtedness).

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

"Senior Indenture Debt Service Fund" means the "Debt Service Fund" created by Section 503 of the Senior Indenture.

"Senior Indenture Debt Service Reserve Fund" means the "Debt Service Reserve Fund" created by Section 503 of the Senior Indenture.

"Senior Indenture DSRF Security" means 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 such a surety bond, an insurance policy, a letter of credit or similar financial instrument will not result in the rating on any outstanding Senior Revenue Bonds being downgraded) payable to the Senior Trustee for the benefit of the Senior Indenture Bondholders.

"Senior Indenture Long-Term Indebtedness" means all Indebtedness of the Commission, which is not (a) Senior Indenture Short-Term Indebtedness or (b) Senior Indenture Subordinated Indebtedness.

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

"Senior Indenture Operating Account" means the "Operating Account" created by Section 503 of the Senior Indenture.

"Senior Indenture Parity Obligations" means includes Senior Revenue Bonds and other obligations of the Commission owed to Senior Indenture Secured Owners, but excludes Senior Indenture Subordinated Indebtedness.

"Senior Indenture Parity Swap Agreement" means any Senior Indenture Approved Swap Agreement.

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

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

"Senior Indenture Rate Covenant" means the requirement to establish and maintain a schedule of Tolls sufficient to provide the funds required pursuant to Section 501 of the Senior Indenture.

"Senior Indenture Rebate Fund" means the "Rebate Fund" created by Section 503 of the Senior Indenture.

"Senior Indenture Registrar" means with respect to any series of Senior Revenue Bonds, that Person which maintains the related bond register or such other entity designated under the Senior Indenture to serve such function and the Senior Indenture Registrar initially shall be the Senior Trustee.

"Senior Indenture Reserve Maintenance Fund" means the "Revenue Maintenance Fund" created by Section 503 of the Senior Indenture.

"Senior Indenture Revenue Fund" means the "Revenue Fund" created by Section 503 of the Senior Indenture.

"Senior Indenture Secured Owner" means each Person who is a Senior Bondholder of any Senior Revenue Bonds, each counterparty providing a Senior Indenture Parity Swap Agreement, each bank providing a Credit Facility and each bond insurer providing a bond insurance policy with respect to a Senior Indenture Parity Obligation.

"Senior Indenture Short-Term Indebtedness" means all Indebtedness which matures in less than 365 days and is designated as "Short-Term Indebtedness" pursuant to the Senior Indenture.

"Senior Indenture Subordinated Indebtedness" means Indebtedness which is subordinated and junior in all respects to payment of all Senior Revenue Bonds and other Senior Indenture Parity Obligations incurred pursuant to or in compliance with the Senior Indenture.

"Senior Indenture Swap Agreement Counterparty" means the counterparty to a Senior Indenture Parity Swap Agreement with the Commission or with the Senior Trustee.

"Senior Indenture Variable Rate Indebtedness" means any Indebtedness the interest rate on which fluctuates from time to time subsequent to the time of incurrence.

"Senior Reimbursement Agreement" means 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 Senior Revenue Bonds of one or more series of Senior Revenue Bonds and the Commission agrees to reimburse such bank or banks for any drawings made thereunder.

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

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

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

"Tolls" means 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.

**APPENDIX H  
DEBT SERVICE REQUIREMENTS OF THE SENIOR INDENTURE BONDS  
AND SUBORDINATE INDENTURE**

Fiscal Year Ending May 31	Existing Debt Service on Senior Indenture Bonds (1)(2)	Subordinate Subseries 2008 A-1 Bonds			Subordinate Subseries 2008 A-2 Bonds			Total Debt Service on Subordinate Indenture Bonds (3)	Combined Total Debt Service (3)
		Principal	Interest	Total	Principal	Interest	Total		
2009	\$127,204,273		\$5,157,030	\$5,157,030		\$2,210,993	\$2,210,993	\$7,368,023	\$134,572,296
2010	127,206,498		8,757,221	8,757,221	2,555,000	3,706,738	6,261,738	15,018,959	142,225,457
2011	127,226,218		8,757,221	8,757,221	3,760,000	3,583,383	7,343,383	16,100,604	143,326,822
2012	127,158,097		8,757,221	8,757,221	3,915,000	3,421,873	7,336,873	16,094,094	143,252,191
2013	127,229,601		8,757,221	8,757,221	4,085,000	3,239,533	7,324,533	16,081,754	143,311,355
2014	127,313,682		8,757,221	8,757,221	4,280,000	3,037,839	7,317,839	16,075,060	143,388,742
2015	128,850,170		8,757,221	8,757,221	4,490,000	2,816,709	7,306,709	16,063,930	144,914,100
2016	128,972,694		8,757,221	8,757,221	4,720,000	2,575,551	7,295,551	16,052,772	145,025,466
2017	125,373,428		8,757,221	8,757,221	4,970,000	2,313,808	7,283,808	16,041,029	141,414,457
2018	125,479,932		8,757,221	8,757,221	5,245,000	2,033,406	7,278,406	16,035,628	141,515,560
2019	97,922,226		8,757,221	8,757,221	5,530,000	1,737,633	7,267,633	16,024,854	113,947,080
2020	97,966,124		8,757,221	8,757,221	5,835,000	1,398,822	7,233,822	15,991,044	113,957,168
2021	98,033,069		8,757,221	8,757,221	6,210,000	1,012,780	7,222,780	15,980,001	114,013,070
2022	98,089,750		8,757,221	8,757,221	6,610,000	601,899	7,211,899	15,969,120	114,058,870
2023	97,816,436	945,000	8,737,731	9,682,731	6,085,000	195,024	6,280,024	15,962,755	113,779,191
2024	97,725,257	7,460,000	8,539,240	15,999,240				15,999,240	113,724,497
2025	97,679,742	7,820,000	8,171,740	15,991,740				15,991,740	113,671,482
2026	97,635,824	8,195,000	7,778,365	15,973,365				15,973,365	113,609,189
2027	97,590,114	8,605,000	7,358,365	15,963,365				15,963,365	113,553,479
2028	70,606,427	9,035,000	6,918,265	15,953,265				15,953,265	86,559,692
2029	70,690,350	9,485,000	6,461,165	15,946,165				15,946,165	86,636,515
2030	70,201,198	9,950,000	5,980,290	15,930,290				15,930,290	86,131,488
2031	70,198,496	10,445,000	5,472,103	15,917,103				15,917,103	86,115,599
2032	70,195,938	10,965,000	4,940,228	15,905,228				15,905,228	86,101,166
2033	70,197,238	11,510,000	4,381,728	15,891,728				15,891,728	86,088,966
2034	70,196,250	12,085,000	3,795,228	15,880,228				15,880,228	86,076,478
2035	70,197,750	12,685,000	3,178,505	15,863,505				15,863,505	86,061,255
2036		13,315,000	2,530,185	15,845,185				15,845,185	15,845,185
2037		13,980,000	1,849,490	15,829,490				15,829,490	15,829,490
2038		14,675,000	1,134,795	15,809,795				15,809,795	15,809,795
2039		15,410,000	384,380	15,794,380				15,794,380	15,794,380
<b>TOTAL</b>	<b>\$2,714,956,782</b>	<b>\$176,565,000</b>	<b>\$206,612,707</b>	<b>\$383,177,707</b>	<b>\$68,290,000</b>	<b>\$33,885,988</b>	<b>\$102,175,988</b>	<b>\$485,353,696</b>	<b>\$3,200,310,478</b>

(1) All variable rate series Bonds, unless subject to an interest rate swap agreement, are shown at an assumed rate of 4.0%. All variable rate debt which is swapped to a fixed rate is shown at the assumed swap rate.

(2) Does not include debt service on the \$531,855,000 Turnpike Bond Anticipation Notes, Series 2007 which are to be redeemed on or before their maturity date of October 15, 2009 from the proceeds of bonds expected to be issued under the Subordinate Indenture.

(3) Totals may not add due to rounding.

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