

In the opinion of Co-Bond Counsel, under existing law, interest on the 2018 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, interest paid to certain corporate holders of the 2018 Bonds indirectly may be subject to alternative minimum tax under circumstances described under “TAX MATTERS” herein. Under existing law, the 2018 Bonds are exempt from personal property taxes in Pennsylvania and the interest on the 2018 Bonds is exempt from Pennsylvania personal income tax and from Pennsylvania corporate net income tax. The opinion of Co-Bond Counsel is subject to continuing compliance by the Commission with certain tax covenants to satisfy certain provisions of the Internal Revenue Code of 1986, as amended. See “TAX MATTERS” herein.



PENNSYLVANIA TURNPIKE COMMISSION
\$231,385,000 OIL FRANCHISE TAX SENIOR REVENUE BONDS,
SERIES A OF 2018

and

\$210,480,000 OIL FRANCHISE TAX SUBORDINATED REVENUE BONDS,
SERIES B OF 2018

Due: December 1, As Shown on Inside Front Cover

The Pennsylvania Turnpike Commission Oil Franchise Tax Senior Revenue Bonds, Series A of 2018 (the “**2018A Bonds**”) and the Oil Franchise Tax Subordinated Revenue Bonds, Series B of 2018 (the “**2018B Bonds**”) and, together with the 2018A Bonds, the “**2018 Bonds**”) are being issued pursuant to an Eighth Supplemental Trust Indenture dated as of June 1, 2018 (the “**Eighth Supplemental Indenture**”) to the Trust Indenture dated as of August 1, 1998, as previously amended and supplemented (together with the Eighth Supplemental Indenture, the “**Indenture**”), between the Pennsylvania Turnpike Commission (the “**Commission**”) and U.S. Bank National Association, as successor trustee (the “**Trustee**”). The 2018A Bonds are being issued to provide funds to finance the costs of (i) various capital expenditures for the Pennsylvania Turnpike System set forth in the Commission’s current or any prior Independently Funded Capital Plan, including but not limited to, the funding of capital expenditures related to the Southern Beltway or the Mon-Fayette Expressway (the “**2018 Construction Project**”) and (ii) paying the costs of issuing the 2018A Bonds (collectively, the “**2018A Project**”). The 2018B Bonds are being issued to provide funds to finance the costs of (i) the 2018 Construction Project, (ii) funding necessary reserves or similar funds to the extent required for such financing, and (iii) paying the costs of issuing the 2018B Bonds (collectively, the “**2018B Project**” and together with the 2018A Project, the “**Project**”).

The 2018 Bonds will be dated their respective dates of initial issuance and delivery thereof. The 2018 Bonds will mature on December 1 of the years and bear interest from their respective delivery dates at the rates shown on the inside cover page hereof, calculated on the basis of a year of 360 days consisting of twelve 30-day months. Interest on the 2018 Bonds will be payable on each June 1 and December 1, commencing on December 1, 2018.

The 2018 Bonds are deliverable in fully registered form and, when issued, will be registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the 2018 Bonds. Beneficial ownership interests in the 2018 Bonds will be recorded in book-entry only form in denominations of \$5,000 or any integral multiple thereof. Purchasers of the 2018 Bonds will not receive bonds representing their beneficial ownership in the 2018 Bonds, but will receive a credit balance on the books of their respective DTC Participants or DTC Indirect Participants. So long as Cede & Co. is the registered owner of the 2018 Bonds, principal of and interest on the 2018 Bonds will be paid to Cede & Co., as nominee of DTC, which will, in turn, remit such principal and interest to the Participants and Indirect Participants for subsequent disbursement to the Beneficial Owners, as described herein. The 2018 Bonds will be transferable or exchangeable to another nominee of The Depository Trust Company or as otherwise described herein. So long as Cede & Co. is the registered owner of the 2018 Bonds, payments of principal and interest on the 2018 Bonds will be made directly by the Paying Agent under the Indenture, as described herein. See “DESCRIPTION OF THE 2018 BONDS – Book-Entry Only System.” The 2018 Bonds will be subject to optional and mandatory redemption prior to maturity as described herein.

THE GENERAL ASSEMBLY OF THE COMMONWEALTH OF PENNSYLVANIA (THE “COMMONWEALTH”) HAS ALLOCATED A PORTION OF THE OIL COMPANY FRANCHISE TAX (THE “OIL FRANCHISE TAX”) IMPOSED BY THE COMMONWEALTH AND APPROPRIATED IT TO THE COMMISSION. THE 2018 BONDS ARE LIMITED OBLIGATIONS OF THE COMMISSION PAYABLE SOLELY FROM THE TRUST ESTATE INCLUDING, BUT NOT LIMITED TO, THAT PORTION OF THE OIL FRANCHISE TAX PAID TO THE COMMISSION OR THE TRUSTEE BY THE COMMONWEALTH AND CERTAIN FUNDS HELD UNDER THE INDENTURE AND THE EARNINGS THEREON. THE 2018 BONDS SHALL NOT BE DEEMED TO BE A DEBT OF THE COMMONWEALTH OR A PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH AND SHALL NOT BE AN OBLIGATION OF THE COMMISSION PAYABLE FROM ANY SOURCE EXCEPT THE TRUST ESTATE, WHICH INCLUDES, BUT IS NOT LIMITED TO, THAT PORTION OF THE OIL FRANCHISE TAX PAID TO THE COMMISSION OR THE TRUSTEE BY THE COMMONWEALTH AND CERTAIN FUNDS HELD UNDER THE INDENTURE AND THE EARNINGS THEREON. THE COMMISSION HAS NO TAXING POWER.

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

The 2018 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 Buchanan Ingersoll & Rooney PC, Pittsburgh, Pennsylvania and Zarwin Baum DeVito Kaplan Schaer Toddy P.C., Philadelphia, Pennsylvania, Co-Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Underwriters by Duane Morris LLP, Philadelphia, Pennsylvania, and Ahmad Zaffarese LLC, Philadelphia, Pennsylvania, Co-Counsel for the Underwriters. Certain legal matters will be passed upon for the Commission by its Chief Counsel, Doreen A. McCall, Esquire, and by McNees Wallace & Nurick LLC, Lancaster, Pennsylvania, Disclosure Counsel to the Commission. It is anticipated that delivery of the 2018 Bonds in book-entry form will be made through the facilities of DTC in New York, New York on or about June 5, 2018.

Jefferies

Piper Jaffray & Co.

J.P. Morgan

FTN Financial

BNY Mellon Capital Markets, LLC/Academy Securities

Quoin Capital, LLC

PENNSYLVANIA TURNPIKE COMMISSION

\$231,385,000 OIL FRANCHISE TAX SENIOR REVENUE BONDS, SERIES A OF 2018

MATURITY SCHEDULE

\$157,895,000 5.250% Term Bonds maturing December 1, 2044; Yield 3.270%; Price 117.461* (CUSIP 709221 VE2¹)

\$73,490,000 5.000% Term Bonds maturing December 1, 2048; Yield 3.410% Price 113.921* (CUSIP 709221 VF9¹)

\$210,480,000 OIL FRANCHISE TAX SUBORDINATED REVENUE BONDS, SERIES B OF 2018

MATURITY SCHEDULE

| <u>Maturity (December 1)</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>Price*</u> | <u>CUSIP¹</u> |
|----------------------------------|---------------|----------------------|--------------|---------------|--------------------------|
| 2038 | \$14,795,000 | 5.000% | 3.500% | 113.073 | 709221 VG7 |
| 2039 | 15,535,000 | 5.000% | 3.520% | 112.886 | 709221 VH5 |

\$70,305,000 5.000% Term Bonds maturing December 1, 2043; Yield 3.560%; Price 112.512* (CUSIP 709221 VJ1¹)

\$54,845,000 5.000% Term Bonds maturing December 1, 2048; Yield 3.610%; Price 112.047*(CUSIP 709221 VK8¹)

\$55,000,000 5.250% Term Bonds maturing December 1, 2048; Yield 3.510%; Price 115.157* (CUSIP 709221 VL6¹)

* Priced to the first optional redemption date of December 1, 2028.

¹ The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the Commission or the Underwriters, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. None of the Commission or the Underwriters has agreed to, and there is no duty or obligation to, update this Bond Purchase Agreement to reflect any change or correction in the CUSIP numbers set forth above.

PENNSYLVANIA TURNPIKE COMMISSION

COMMISSIONERS

LESLIE RICHARDS
Chair

WILLIAM K. LIEBERMAN
Vice Chair

BARRY T. DREW
Secretary – Treasurer

PASQUALE T. DEON, SR.
Commissioner

JOHN WOZNIAK
Commissioner

ADMINISTRATION

MARK P. COMPTON
Chief Executive Officer

CRAIG R. SHUEY
Chief Operating Officer

NIKOLAUS H. GRIESHABER
Chief Financial Officer

BRADLEY J. HEIGEL
Chief Engineer

DOREEN A. MCCALL
Chief Counsel

RAY A. MORROW
Chief Compliance Officer

U.S. BANK NATIONAL ASSOCIATION
Trustee and Authenticating Agent

MANUFACTURERS AND TRADERS TRUST COMPANY
Paying Agent

PFM FINANCIAL ADVISORS LLC
Co-Financial Advisor

G-ENTRY PRINCIPLE, P.C.
Co-Financial Advisor

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 2018 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Commission and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by, and is not to be construed as representations by, the Underwriters. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in any of the information set forth herein since the date hereof. This Official Statement will be made available through the Electronic Municipal Market Access System (“EMMA”), which is the sole Nationally Recognized Municipal Securities Information Repository.

The 2018 Bonds are not and will not be registered under the Securities Act of 1933, as amended, or under any state securities laws, and the Indenture has not been and will not be qualified under the Trust Indenture Act of 1939, as amended, because of available exemptions therefrom. Neither the United States Securities and Exchange Commission (the “SEC”) nor any federal, state, municipal, or other governmental agency will pass upon the accuracy, completeness, or adequacy of this Official Statement.

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

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

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2018 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT NOTICE. THE COMMISSION RESERVES THE RIGHT TO INCREASE OR DECREASE THE SIZE OF THIS OFFERING SUBJECT TO PREVAILING MARKET CONDITIONS.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY, OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE

APPENDICES, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE 2018 BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

The CUSIP (Committee on Uniform Securities Identification Procedures) numbers for the 2018 Bonds shown on the inside cover page hereof have been assigned by an organization not affiliated with the Commission or the Underwriters, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. None of the Commission or the Underwriters has agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth herein.

TABLE OF CONTENTS

| | Page |
|--|-------------|
| INTRODUCTION | 1 |
| Pennsylvania Turnpike Commission | 1 |
| Indenture and Enabling Acts | 1 |
| Security | 2 |
| Purpose | 3 |
| Existing Obligations | 3 |
| DESCRIPTION OF THE 2018 BONDS | 4 |
| General | 4 |
| Redemption of 2018 Bonds | 5 |
| PLAN OF FINANCING | 9 |
| ESTIMATED SOURCES AND USES OF FUNDS | 10 |
| SECURITY FOR THE 2018 BONDS | 11 |
| Sources of Payment; Oil Franchise Tax | 11 |
| Security for the 2018 Bonds; Remedies | 11 |
| Flow of Funds | 12 |
| Subordinated Bonds Debt Service Reserve Fund | 13 |
| Revenue Fund Excess Balance and Oil Franchise Tax General Fund | 14 |
| Additional Bonds | 14 |
| Additional Bonds for Refunding Purposes | 15 |
| Obligations Secured by Other Revenue Sources | 15 |
| Parity Swaps | 15 |
| OIL FRANCHISE TAX | 17 |
| Commission Allocation | 17 |
| Pledge and Appropriation | 17 |
| Act 3 | 18 |
| Act 89 | 18 |
| Liquid Fuels and Fuels as the Subjects of Oil Franchise Tax | 19 |
| Collection and Calculation of Oil Franchise Tax | 19 |
| Amounts of Oil Franchise Tax Collected | 20 |
| Historical Consumption Amounts | 21 |
| CERTAIN RISK FACTORS | 24 |
| AUDITED FINANCIAL STATEMENTS | 28 |
| CONTINUING DISCLOSURE | 28 |
| RELATIONSHIPS OF CERTAIN PARTIES | 29 |
| UNDERWRITING | 30 |
| RATINGS | 30 |

| | |
|--------------------------------------|----|
| LITIGATION | 31 |
| TAX MATTERS | 33 |
| Federal Tax Exemption | 33 |
| Tax Treatment of Premium | 33 |
| Other Federal Tax Consequences | 33 |
| Pennsylvania Tax Exemption | 33 |
| MISCELLANEOUS..... | 34 |

| |
|---|
| APPENDIX A – THE PENNSYLVANIA TURNPIKE COMMISSION |
| APPENDIX B – AUDITED 2017 AND 2016 FINANCIAL STATEMENTS |
| APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE |
| APPENDIX D – FORM OF OPINION OF CO-BOND COUNSEL |

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OFFICIAL STATEMENT

PENNSYLVANIA TURNPIKE COMMISSION

\$231,385,000 OIL FRANCHISE TAX SENIOR REVENUE BONDS, SERIES A OF 2018

\$210,480,000 OIL FRANCHISE TAX SUBORDINATED REVENUE BONDS, SERIES B OF 2018

INTRODUCTION

This Official Statement, which includes the cover page, the inside front cover and the Appendices hereto, is furnished by the Pennsylvania Turnpike Commission (the “*Commission*”) in connection with the issuance of \$441,865,000 aggregate principal amount of Pennsylvania Turnpike Commission Oil Franchise Tax Revenue Bonds, consisting of \$231,385,000 aggregate principal amount Oil Franchise Tax Senior Revenue Bonds, Series A of 2018 (the “*2018A Bonds*”), and \$210,480,000 aggregate principal amount Oil Franchise Tax Subordinated Revenue Bonds, Series B of 2018 (the “*2018B Bonds*” and, together with the 2018A Bonds, the “*2018 Bonds*”).

Certain information concerning the Commission is attached hereto as APPENDIX A. Audited financial statements of the Commission for the fiscal years ended May 31, 2016 and May 31, 2017 are attached hereto as APPENDIX B. A summary of certain provisions of the Indenture (as defined below) is attached hereto as APPENDIX C. A form of the opinion of Co-Bond Counsel to be delivered in connection with the issuance of the 2018 Bonds is attached hereto as APPENDIX D. While the audited financial statements of the Commission attached hereto as APPENDIX B pertain to the Commission as a whole, payment of the 2018 Bonds is secured by revenues derived from the Oil Franchise Tax. See “SECURITY FOR THE 2018 BONDS” below.

All capitalized terms not otherwise defined herein shall have the same meanings ascribed to them in the definitions set forth in APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – DEFINITIONS OF CERTAIN TERMS.” All references herein to the Enabling Acts (as defined below), the 2018 Bonds, the Indenture and the Disclosure Undertaking (as defined herein) are qualified in their entirety by reference to the complete texts thereof. Copies of drafts of such documents, except for the Enabling Acts, may be obtained during the initial offering period from the principal offices of the Underwriters and, thereafter, executed copies may be obtained from U.S. Bank National Association, as successor trustee (the “*Trustee*”). All statements in this Official Statement involving matters of opinion, estimates, forecasts, projections or the like, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized.

Pennsylvania Turnpike Commission

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

Indenture and Enabling Acts

The 2018 Bonds are being issued pursuant to an Eighth Supplemental Trust Indenture dated as of June 1, 2018 (the “*Eighth Supplemental Indenture*”) between the Commission and the Trustee, which supplements a Trust Indenture dated as of August 1, 1998 (the “*Original Indenture*”), as amended and supplemented by a First Supplemental Trust Indenture dated as of August 1, 2003 (the “*First Supplemental Indenture*”), a Second Supplemental Trust Indenture dated as of August 1, 2003 (the “*Second Supplemental Indenture*”), a Third Supplemental Trust Indenture dated as of November 1, 2006 (the “*Third Supplemental Indenture*”), a Fourth Supplemental Trust Indenture dated as of April 15, 2008 (the “*Fourth Supplemental Indenture*”), a Fifth Supplemental Trust Indenture dated as of October 1, 2009 (the “*Fifth Supplemental Indenture*”), a Sixth Supplemental Trust Indenture dated as of October 1, 2013 (the “*Sixth Supplemental Indenture*”) and Seventh Supplemental Trust Indenture dated as of September 1, 2016 (the “*Seventh Supplemental Indenture*”), collectively with the Original Indenture,

the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture, the Sixth Supplemental Indenture and Eighth Supplemental Indenture, the “*Indenture*”), and pursuant to and authorized by an Act of the General Assembly of Pennsylvania approved July 18, 2007, P.L. 169, No. 44 (“*Act 44*”) and various Acts of the General Assembly approved on several dates, including the Act of May 21, 1937, P.L. 774, Act 211; the Act of May 24, 1945, P.L. 972; the Act of February 26, 1947, P.L. 17; the Act of May 23, 1951, P.L. 335; the Act of August 14, 1951, P.L. 1232; and the Act of September 30, 1985, P.L. 240, No. 61 (“*Act 61*”) to the extent not repealed by Act 44; the Act of August 5, 1991, P.L. 238, No. 26 (“*Act 26*”) and the Act of November 25, 2013, P.L. 974, No. 89 (“*Act 89*”) (collectively, the “*Enabling Acts*”), and the Resolution adopted by the Commission on March 20, 2018 (the “*Bond Resolution*”). The Act of April 17, 1997, No. 3 (“*Act 3*”) revises certain of the provisions of Act 26 which contains the appropriation of the Commission Allocation (as defined herein) of the Oil Franchise Tax. See “OIL FRANCHISE TAX – Act 3.”

Security

The 2018 Bonds are limited obligations of the Commission payable solely from (i) all Tax Revenues (as defined in “SECURITY FOR THE 2018 BONDS – Additional Bonds”), (ii) the Commission’s right to receive the Commission Allocation and any portion of the Commission Allocation actually received by the Commission, (iii) all moneys deposited into accounts or funds created by the Indenture (other than the Subordinated Bonds Debt Service Reserve Fund which is pledged only for the benefit of the Subordinated Bonds (as defined herein), including the 2018B Bonds, and other than the Rebate Fund), (iv) all Swap Receipts, (v) the Issuer Subsidy (as defined herein), and (vi) all investment earnings on all moneys held in accounts and funds established by the Indenture (other than the Rebate Fund and other than earnings on moneys held in the Subordinated Bonds Debt Service Reserve Fund which are pledged only for the benefit of the Subordinated Bonds). The aforementioned (i), (ii), (iii), (iv), (v) and (vi) are collectively herein referred to as the “*Trust Estate*.” See “OIL FRANCHISE TAX.” Pursuant to the Indenture, the Trust Estate has been pledged and assigned by the Commission to the Trustee to pay principal of and interest on the Bonds (as hereinafter defined), any amounts due under Parity Swap Agreements and Reimbursement Obligations (as such terms are defined herein). The Commission has irrevocably directed the Treasurer of the Commonwealth (the “*State Treasurer*”) to make payment of the Commission Allocation directly to the Trustee, and has directed the Trustee, upon receipt of such amounts, to deposit the moneys, as received, into the Revenue Fund created under the Indenture.

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

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

Senior Bonds and Additional Senior Bonds are senior in right of payment and security to the Subordinated Bonds; provided, however, that the Subordinated Bonds have a first lien on the Subordinated Bonds Debt Service Reserve Fund. See “SECURITY FOR THE 2018 BONDS – Security for the 2018 Bonds; Remedies and – Additional Bonds” and APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – DEFINITIONS OF CERTAIN TERMS.”

A Subordinated Bonds Debt Service Reserve Fund has been established under the Indenture solely for the benefit of the holders of the Subordinated Bonds. The Subordinated Bonds Debt Service Reserve Requirement is an amount equal to one-half the maximum Principal and Interest Requirements for any succeeding Fiscal Year on account of the Subordinated Bonds. THERE IS NO DEBT SERVICE RESERVE FUND FOR THE SENIOR BONDS. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – DEFINITIONS OF CERTAIN TERMS” and “SECURITY FOR THE 2018 BONDS – Subordinated Bonds Debt Service Reserve Fund.” Unlike the Subordinated Bonds, Senior Bonds have no dedicated debt service reserve fund, although excess balances in the Revenue Fund are transferred from time to time to an Oil Franchise Tax General Fund held by the Trustee which is available, among other things, to make up deficiencies in the various funds and accounts established under the Indenture. See “SECURITY FOR THE 2018 BONDS – Revenue Fund Excess Balance and Oil Franchise Tax General Fund.”

THE 2018 BONDS SHALL NOT BE DEEMED TO BE A DEBT OF THE COMMONWEALTH OR A PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH. THE 2018 BONDS ARE OBLIGATIONS OF THE COMMISSION

PAYABLE SOLELY FROM THE TRUST ESTATE, INCLUDING BUT NOT LIMITED TO, THAT PORTION OF THE OIL FRANCHISE TAX PAID TO THE COMMISSION OR THE TRUSTEE BY THE COMMONWEALTH, AND CERTAIN FUNDS HELD UNDER THE INDENTURE AND THE EARNINGS THEREON.

Purpose

The 2018A Bonds are being issued to provide funds to finance the costs of (i) various capital expenditures for the Pennsylvania Turnpike System set forth in the Commission's current or any prior Independently Funded Capital Plan, including but not limited to, the funding of capital expenditures related to the Southern Beltway or the Mon-Fayette Expressway (the "**2018 Construction Project**") and (ii) paying the costs of issuing the 2018A Bonds (collectively, the "**2018A Project**").

The 2018B Bonds are being issued to provide funds to finance the costs of (i) the 2018 Construction Project, (ii) funding necessary reserves or similar funds to the extent required for such financing, and (iii) paying the costs of issuing the 2018B Bonds (collectively, the "**2018B Project**" and together with the 2018A Project, the "**Project**").

Existing Obligations

The 2018A Bonds upon issuance will be Senior Bonds (as defined below), and the 2018B Bonds upon issuance will be Subordinated Bonds (as defined below), with all Bonds (as defined below) now or hereafter issued under or secured by the Indenture consisting of all senior bonds (the "**Senior Bonds**") and all subordinated bonds (the "**Subordinated Bonds**" and, together with the Senior Bonds and all bonds to be issued under the Indenture, the "**Bonds**"). The Bonds issued by the Commission under the Indenture and outstanding as of the date of this Official Statement, are the following:

- \$8,200,000 Oil Franchise Tax Senior Revenue Bonds, Series A of 2009 (Tax-Exempt) (the "**2009A Bonds**");
- \$127,170,000 Oil Franchise Tax Senior Revenue Bonds, Series B of 2009 (Federally Taxable – Issuer Subsidy – Build America Bonds) (the "**2009B Bonds**");
- \$15,461,246 Oil Franchise Tax Senior Revenue Bonds, Series C of 2009 (Tax-Exempt Capital Appreciation Bonds) (the "**2009C Bonds**" and, together with the 2009A Bonds and the 2009B Bonds, the "**2009 Senior Bonds**") of which \$23,656,773.25 are outstanding (including compounded amount as of December 1, 2017);
- \$22,570,000 Oil Franchise Tax Subordinated Revenue Bonds, Series D of 2009 (Tax-Exempt) (the "**2009D Bonds**");
- \$102,505,000 Oil Franchise Tax Subordinated Revenue Bonds, Series E of 2009 (Federally Taxable – Issuer Subsidy – Build America Bonds) (the "**2009E Bonds**");
- \$23,120,000 Oil Franchise Tax Senior Revenue Refunding Bonds, Series A of 2013 (the "**2013A Bonds**");
- \$24,215,000 Oil Franchise Tax Subordinated Revenue Refunding Bonds, Series B of 2013 (the "**2013B Bonds**");
- \$189,800,000 Oil Franchise Tax Senior Revenue Refunding Bonds, Series A of 2016 (the "**2016A Bonds**"); and
- \$109,190,000 Oil Franchise Tax Subordinated Revenue Refunding Bonds, Series B of 2016 (the "**2016B Bonds**").

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

DESCRIPTION OF THE 2018 BONDS

General

The 2018 Bonds will bear interest at fixed rates and will mature, subject to prior redemption, on the dates and in the amounts set forth on the inside front cover page of this Official Statement. Interest on the 2018 Bonds will accrue from their Dated Dates and will be payable semi-annually to maturity (or earlier redemption) on each June 1 and December 1, commencing on December 1, 2018 (each, an “*Interest Payment Date*”).

The 2018 Bonds will be issued in fully registered form in Authorized Denominations (as described below). The principal of and the redemption premium, if any, on all 2018 Bonds shall be payable by check or draft at maturity or upon earlier redemption to the persons in whose names such 2018 Bonds are registered on the Bond Register at the maturity or redemption date thereof, upon the presentation and surrender of such 2018 Bonds at the designated office of the Trustee or of any Paying Agent named in the 2018 Bonds. Interest on the 2018 Bonds shall be paid to the person whose name appears on the Bond Register as the holder thereof as of the close of business on the Record Date (as defined below) for each Interest Payment Date. Payment of the interest on the 2018 Bonds shall be made by check mailed by first class mail to such holder at its address as it appears on such Bond Register or at such other address as is furnished to the Trustee in writing or, upon the written request of any holder of at least \$1,000,000 in aggregate principal amount of the 2018 Bonds, submitted to the Trustee and the Paying Agent not later than ten Business Days before the applicable Record Date, by electronic transfer in immediately available funds to an account within the United States designated by such holder. If the Commission defaults in the payment of interest due on any Interest Payment Date, Defaulted Interest (as defined below) will be payable to the person in whose name such 2018 Bond is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest. The Commission shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each 2018 Bond and the date of the proposed payment (which date shall be such as will enable the Trustee to comply with the next sentence hereof), and shall deposit with the Trustee at the time of such notice an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment; money deposited with the Trustee shall be held in trust for the benefit of the Owners of the Bonds entitled to such Defaulted Interest. Following receipt of such funds the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 nor less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Commission of such Special Record Date and, in the name and at the expense of the Commission, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Owner of a 2018 Bond entitled to such notice at the address of such owner as it appears on the Bond Register not less than 10 days prior to such Special Record Date.

Upon original issuance, the 2018 Bonds will be registered in the name of and held by Cede & Co., as registered holder and nominee for DTC. The 2018 Bonds initially will be issued as one fully registered certificate for each maturity and series. Purchases of the 2018 Bonds will initially be made in book-entry form. See “DESCRIPTION OF THE 2018 BONDS – Book-Entry Only System” herein. As long as the 2018 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 2018 Bonds will be paid directly to Cede & Co. by wire transfer by the Paying Agent on each Interest Payment Date. While the book-entry only system is in effect, transfers and exchanges of the 2018 Bonds will be affected through DTC’s book-entry system.

DTC may determine to discontinue providing its service with respect to the 2018 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, the 2018 Bonds will be authenticated and delivered as provided in the Indenture to the Beneficial Owners of the 2018 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 2018 Bonds, the Commission shall immediately advise the Trustee in writing of the procedures for transfer of the 2018 Bonds from book-entry-only form to a fully registered form.

The “*Record Date*” for determining the Owner entitled to payment of interest with respect to the 2018 Bonds on any given Interest Payment Date is the fifteenth (15th) day (whether or not a Business Day) of the month immediately preceding such Interest Payment Date.

In the event interest on any 2018 Bond is not paid when due (“*Defaulted Interest*”), the provisions relating to Defaulted Interest under the Eighth Supplemental Indenture shall apply. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – THE INDENTURE” for information with respect to the payment of Defaulted Interest.

So long as the 2018 Bonds are in book-entry only form, the principal and redemption price of, and interest on, such 2018 Bonds are payable by check mailed or wire transferred to Cede & Co., as nominee for DTC and Registered Owner of the 2018 Bonds, for redistribution by DTC to its Participants and in turn to Beneficial Owners as described under “DESCRIPTION OF THE 2018 BONDS – Book-Entry Only System.”

Authorized Denominations. The 2018 Bonds will be issued as fully registered bonds in authorized denominations of \$5,000 and any integral multiple thereof.

Registration, Transfer and Exchange. The Trustee has been appointed Bond Registrar and as such shall keep the Bond Register at its Principal Office. The Person in whose name any 2018 Bond shall be registered on the Bond Register shall be deemed and regarded as the absolute owner of such 2018 Bond for all purposes, and payment of or on account of the principal of and interest on any such 2018 Bond shall be made only to or upon the order of the Registered Owner thereof or his legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such 2018 Bond, including the interest thereon, to the extent of the sum or sums so paid.

Any 2018 Bond may be transferred only upon the Bond Register upon surrender thereof to the Trustee duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner or his attorney or legal representative in such form as shall be satisfactory to the Trustee. Upon any such transfer, the Commission shall execute and the Trustee shall authenticate and deliver in exchange for such 2018 Bond a new 2018 Bond or 2018 Bonds, registered in the name of the transferee, of any Authorized Denomination and of the same maturity and series and bearing interest at the same rate.

The Commission, the Securities Depository or the Trustee may charge an amount sufficient to reimburse it for any tax or other governmental charge required to be paid in connection with any transfer or exchange. The Trustee shall not be required to transfer or exchange any 2018 Bond during a period beginning at the opening of business fifteen (15) days before the day of the mailing of a notice of redemption of such 2018 Bond and ending at the close of business on the day of such mailing or transfer or exchange any 2018 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 2018 Bond and ending at the close of business on the relevant Interest Payment Date therefor. See also “DESCRIPTION OF THE 2018 BONDS – Book-Entry Only System” herein for further information regarding registration, transfer and exchange of the 2018 Bonds.

The Indenture, and all provisions thereof, are incorporated by reference in the text of the 2018 Bonds, and the 2018 Bonds provide that each Registered Owner, Beneficial Owner, Participant or Indirect Participant (as such terms are defined hereinafter), by acceptance of a 2018 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 2018 Bond.

Redemption of 2018 Bonds

Optional Redemption.

2018A Bonds. The Series 2018A Bonds are subject to redemption prior to maturity at any time on and after December 1, 2028, as a whole or in part (and if in part, in such order of maturity as directed by the Commission and within a maturity by lot), at the option of the Commission at par, plus accrued interest to the date of redemption, all in the manner provided by the Indenture.

2018B Bonds. The Series 2018B Bonds are subject to redemption prior to maturity at any time on and after December 1, 2028, as a whole or in part (and if in part, in such order of maturity as directed by the Commission and within a maturity by lot), at the option of the Commission at par, plus accrued interest to the date of redemption, all in the manner provided by the Indenture.

Mandatory Redemption.

Mandatory Sinking Fund Redemption. The 2018A Bonds maturing on December 1, 2044 and December 1, 2048 shall be subject to mandatory sinking fund redemption prior to maturity by the Commission in part on December 1 of the respective years and in the amounts set forth below, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date.

2018A Bonds Maturing December 1, 2044

| <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|
| 2040 | \$28,435,000 |
| 2041 | 29,925,000 |
| 2042 | 31,495,000 |
| 2043 | 33,150,000 |
| 2044* | 34,890,000 |

2018A Bonds Maturing December 1, 2048

| <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|
| 2045 | \$17,050,000 |
| 2046 | 17,900,000 |
| 2047 | 18,800,000 |
| 2048* | 19,740,000 |

*Final Maturity

Mandatory Sinking Fund Redemption. The 2018B Bonds maturing on December 1, 2043 and December 1, 2048 shall be subject to mandatory sinking fund redemption prior to maturity by the Commission in part on December 1 of the respective years and in the amounts set forth below, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date.

2018B Bonds Maturing December 1, 2043

| <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|
| 2040 | \$16,310,000 |
| 2041 | 17,125,000 |
| 2042 | 17,985,000 |
| 2043* | 18,885,000 |

2018B Bonds Maturing December 1, 2048 (@ 5.00%)

| <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|
| 2044 | \$8,825,000 |
| 2045 | 9,845,000 |
| 2046 | 10,915,000 |
| 2047 | 12,040,000 |
| 2048* | 13,220,000 |

2018B Bonds Maturing December 1, 2048 (@ 5.25%)

| <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|
| 2044 | \$11,000,000 |
| 2045 | 11,000,000 |
| 2046 | 11,000,000 |
| 2047 | 11,000,000 |
| 2048* | 11,000,000 |

*Final Maturity

Selection of 2018 Bonds to be Redeemed.

2018 Bonds shall be redeemed only in Authorized Denominations. Any partial optional redemption of the 2018 Bonds may be made in any order of maturity and in any principal amount within a maturity as designated by the Commission. The particular 2018 Bonds within a maturity to be redeemed in part shall be selected by the Trustee by lot or in such manner as the Trustee in its discretion may determine.

In the case of a partial redemption of 2018 Bonds, when 2018 Bonds of a series of denominations greater than the minimum Authorized Denomination are then Outstanding, then for all purposes in connection with such redemption each principal amount equal to the minimum Authorized Denomination shall be treated as though it was a separate 2018 Bond of the minimum Authorized Denomination.

If it is determined that a portion, but not all, of the principal amount represented by any 2018 Bond is to be selected for redemption, then upon notice of intention to redeem such portion, the Owner of such 2018 Bond or such Owner's attorney or legal representative shall forthwith present and surrender such 2018 Bond to the Trustee (1) for payment of the redemption price (including the premium, if any, and interest to the date fixed for redemption) of the principal amount called for redemption, and (2) for exchange, without charge to the Owner thereof for a new 2018 Bond or 2018 Bonds of the aggregate principal amount of the unredeemed portion of the principal amount of such 2018 Bond. If the Owner of any such 2018 Bond shall fail to present such 2018 Bond to the Trustee for payment and exchange as aforesaid, said 2018 Bond shall, nevertheless, become due and payable on the redemption date to the extent the principal amount called for redemption (and to that extent only).

Notice and Effect of Call for Redemption. Official notice of any such redemption shall be given by the Trustee on behalf of the Commission by mailing a copy of an official redemption notice by first class mail at least thirty (30) days and not more than sixty (60) days prior to the redemption date to each Registered Owner of the 2018 Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such Registered Owner to the Trustee. Official notice of redemption having been given as aforesaid, the 2018 Bonds or portions of 2018 Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price specified therein, and from and after such date (unless the Commission shall default in the payment of the redemption price) such 2018 Bonds or portions of 2018 Bonds shall cease to bear interest.

As long as DTC remains the sole Registered Owner of the 2018 Bonds, notice of redemption shall be sent solely to DTC as provided in the Indenture. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the 2018 Bonds called for redemption or of any other action premised on such notice. See "DESCRIPTION OF THE 2018 BONDS – Book-Entry Only System."

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

Any Conditional Redemption may be rescinded in whole or in part at any time prior to the redemption date if the Commission delivers a certificate of a Commission Official to the Trustee instructing the Trustee to rescind the redemption notice. The Trustee shall give prompt notice of such rescission to the affected Bondholders. Any 2018 Bonds subject to Conditional Redemption where redemption has been rescinded shall remain Outstanding, and the rescission shall not constitute an Event of Default.

Further, in the case of a Conditional Redemption, the failure of the Commission to make funds available in part or in whole on or before the redemption date shall not constitute an Event of Default.

Failure to give any notice to any Owner, or any defect therein, shall not affect the validity of any proceedings for the redemption of any other 2018 Bonds. Any notice mailed shall be conclusively presumed to have been duly given and shall become effective upon mailing, whether or not any Owner receives the notice.

Book-Entry Only System

THE INFORMATION PROVIDED UNDER THIS SUBHEADING HAS BEEN PROVIDED BY THE DEPOSITORY TRUST COMPANY (“DTC”), NEW YORK, NEW YORK. NO REPRESENTATION IS MADE BY THE COMMISSION OR THE UNDERWRITERS AS TO THE ACCURACY, COMPLETENESS OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

DTC will act as securities depository for the 2018 Bonds. The 2018 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 for each Series of the 2018 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“*Direct Participants*”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“*DTCC*”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“*Indirect Participants*”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2018 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2018 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2018 Bond (“*Beneficial Owner*”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2018 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 the 2018 Bonds, except in the event that use of the book-entry system for the 2018 Bonds is discontinued.

To facilitate subsequent transfers, all 2018 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 the 2018 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2018 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2018 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 the 2018 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2018 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2018 Bond documents. For example, Beneficial Owners of the 2018 Bonds may wish to ascertain that the nominee holding the 2018 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 2018 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 2018 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2018 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2018 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commission or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commission or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2018 Bonds at any time by giving reasonable notice to the Commission or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

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., or any successor thereto, is the Registered Owner of the 2018 Bonds, as DTC's partnership nominee, references herein to the Bondholders or owners or Registered Owners of the 2018 Bonds shall mean DTC and shall not mean the Beneficial Owners of the 2018 Bonds. During such period, the Trustee and the Commission will recognize DTC or its partnership nominee as the owner of all of the 2018 Bonds for all purposes, including the payment of the principal of, premium, if any, and interest on the 2018 Bonds, as well as the giving of notices and voting.

THE COMMISSION AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO ANY DTC PARTICIPANT OR ANY BENEFICIAL OWNER OF THE 2018 BONDS WITH RESPECT TO: (1) THE 2018 BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT DUE TO ANY DTC PARTICIPANT OR BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, AND INTEREST ON THE 2018 BONDS; (4) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC TO ANY DIRECT PARTICIPANT, OR BY ANY DTC PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY NOTICE WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE 2018 BONDS OR THE INDENTURE TO BE GIVEN TO BENEFICIAL OWNERS; (5) THE SELECTION OF BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE 2018 BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC, OR ITS NOMINEE, CEDE & CO., AS BONDHOLDER.

In the event that the Book-Entry Only System is discontinued and the Beneficial Owners become Registered Owners of the 2018 Bonds, the 2018 Bonds will be transferable in accordance with the provisions of the Indenture.

PLAN OF FINANCING

The 2018A Bonds are being issued to provide funds to finance the costs of (i) various capital expenditures for the Pennsylvania Turnpike System set forth in the Commission's current or any prior Independently Funded Capital Plan, including

but not limited to, the funding of capital expenditures related to the Southern Beltway or the Mon-Fayette Expressway (the “**2018 Construction Project**”) and (ii) paying the costs of issuing the 2018A Bonds.

The 2018B Bonds are being issued to provide funds to finance the costs of (i) the 2018 Construction Project, (ii) funding necessary reserves or similar funds to the extent required for such financing, and (iii) paying the costs of issuing the 2018B Bonds.

ESTIMATED SOURCES AND USES OF FUNDS*

| SOURCES OF FUNDS | 2018A Bonds | 2018B Bonds | Total |
|---|-------------------------|-------------------------|-------------------------|
| Principal Amount | \$231,385,000.00 | 210,480,000.00 | 441,865,000.00 |
| Original Issue Premium | 37,800,588.85 | 27,676,079.20 | 65,476,668.05 |
| TOTAL SOURCES | \$269,185,588.85 | \$238,156,079.20 | \$507,341,668.05 |
| USES OF FUNDS | | | |
| Deposit to 2018 Construction Account | \$267,946,082.54 | \$232,053,917.46 | \$500,000,000.00 |
| Deposit to Subordinated Debt Service Reserve Fund | | 4,981,364.61 | 4,981,364.61 |
| Costs of Issuance* | 1,239,506.31 | 1,120,797.13 | 2,360,303.44 |
| TOTAL USES | \$269,185,588.85 | \$238,156,079.20 | \$507,341,668.05 |

* Includes underwriters’ discount, fees and expenses of co-bond counsel, disclosure counsel and co-counsel to the underwriters, rating agency fees, printing expenses, fees and expenses of the financial advisors, trustee fees, and other miscellaneous costs and expenses.

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SECURITY FOR THE 2018 BONDS

Sources of Payment; Oil Franchise Tax

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

The 2018 Bonds are limited obligations of the Commission payable solely from the Trust Estate which consists of the following: (i) all Tax Revenues, (ii) the Commission's right to receive the Commission Allocation and any portion of the Commission Allocation actually received by the Commission, (iii) all moneys deposited into accounts or funds created by the Indenture (other than the Subordinated Bonds Debt Service Reserve Fund which is pledged only for the benefit of the Subordinated Bonds and other than the Rebate Fund), (iv) all Swap Receipts, (v) the Issuer Subsidy and (vi) all investment earnings on all moneys held in accounts and funds established by the Indenture (other than earnings on moneys held in the Subordinated Bonds Debt Service Reserve Fund which are pledged only for the benefit of the Subordinated Bonds and other than the Rebate Fund).

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

In addition to the Trust Estate, the Commission also receives toll revenues from the operation of the System and revenue derived from a portion of the Commonwealth's vehicle registration fee revenues.

HOWEVER, THE COMMISSION'S TOLLS AND REGISTRATION FEE REVENUES, AS WELL AS OTHER SOURCES OF THE COMMISSION'S REVENUES NOT DERIVED FROM TOLL REVENUE, INCLUDING CONCESSION REVENUE, ARE EXCLUDED FROM THE TRUST ESTATE PLEDGED FOR THE 2018 BONDS. THE TRUST ESTATE ALSO EXCLUDES ALL MONEYS HELD IN THE REBATE FUND.

THE COMMISSION'S ALLOCATION OF THE OIL FRANCHISE TAX IS THE ONLY REVENUE SOURCE FOR THE 2018 BONDS.

THE 2018 BONDS SHALL NOT BE DEEMED TO BE A DEBT OF THE COMMONWEALTH OR A PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH.

Security for the 2018 Bonds; Remedies

The Trust Estate is pledged in the Indenture to the Trustee as security for the payment of the Bonds and the interest thereon and as security for the satisfaction of any other obligation assumed by the Commission in connection with the 2018 Bonds, including any Parity Swap Agreements (as defined below) and Reimbursement Obligations (as defined below).

A "*Parity Swap Agreement*" means an interest rate swap agreement, currency swap agreement, forward payment conversion agreement, futures contract, contracts providing for payments based on levels of or changes in interest rates, currency exchange rates, stock or other indices or contracts to exchange cash flows or a series of payments, and contracts including, without limitation, interest rate floors or caps, options, puts or calls to hedge payment, currency rate, spread or similar exposure under which some or all of the amounts payable by the Commission or the Trustee pursuant to such agreement may be secured by the Tax Revenues on parity with the Bonds to which such agreement relates. Under the Indenture, amounts payable by the Commission on such a Parity Swap Agreement shall be secured on a parity basis with the Bonds to which such contract relates but only to the extent so provided in such contract and only if, among other requirements, each Rating Agency which then has a rating assigned to any Bond that would be secured on parity with the Commission's obligation under said contract confirms in writing to the Trustee that the Commission's execution and delivery of such contract will not result in a reduction or withdrawal of such rating.

A "*Reimbursement Obligation*" means an obligation of the Commission pursuant to a Reimbursement Agreement to repay any amounts drawn under a Credit Facility, to pay any interest on such drawn amounts pursuant to such Reimbursement Agreement and to pay any Bank Fee owed pursuant thereto. A "*Reimbursement Agreement*" means an agreement between the

Commission and one or more Banks pursuant to which, among other things, such Bank or Banks issues a Credit Facility with respect to Bonds of one or more series and the Commission agrees to reimburse such Bank or Banks for any drawings made thereunder, including any security or pledge agreement entered into in connection therewith pursuant to which the Commission grants the Bank or Banks a security interest in any collateral to secure its obligations to the Bank or Banks.

Senior Bonds, Additional Senior Bonds, certain amounts payable under Parity Swap Agreements relating to Senior Bonds are senior in right of payment and security to the Subordinated Bonds; provided, however, that the Subordinated Bonds have a first lien on the Subordinated Bonds Debt Service Reserve Fund. Certain amounts payable under Parity Swap Agreements relating to the Subordinated Bonds are on parity with the debt service on the Subordinated Bonds. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – THE INDENTURE.” Upon any failure to make a principal, interest, or redemption payment with respect to the Senior Bonds, the Trustee may, and upon the written request of the holders of not less than 25% in principal amount of the Senior Bonds then outstanding shall, declare the principal of all of the Bonds, including the Senior Bonds and the Subordinated Bonds, to be due and payable. **The failure to make any payment with respect to the Subordinated Bonds shall not constitute a default with respect to the Senior Bonds.** Upon any other default specified in the Indenture including any failure to make a principal, interest or redemption payment with respect to the Subordinated Bonds, the Trustee may proceed, and upon the written request of the holders of not less than 25% in principal amount of the Bonds Outstanding (provided that if said event of default pertains only to one series of Bonds, then the written request of the holders of 25% or more of the principal amount solely of such series of Bonds) shall proceed to protect and enforce its rights and the rights of the Bondholders under the laws of the Commonwealth or under the Indenture by such suits, actions, or special proceedings in equity or at law either for the specific performance of any covenant or agreement in the Indenture or in aid of execution of any power granted in the Indenture or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, shall deem reasonable or necessary to protect and enforce such rights. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – THE INDENTURE – Remedies.”

Flow of Funds

The Oil Franchise Tax is collected by the Commonwealth Department of Revenue (the “*Department of Revenue*”) and deposited into the Motor License Fund of the Commonwealth held by the Department of Transportation. Once each month on or prior to the 20th day of the month, the Department of Transportation pays to the Commission the Commission Allocation collected and deposited into the Motor License Fund during the immediately preceding calendar month; provided, however, that if in any year the actual Commission Allocation to be distributed to the Commission exceeds the amount included in the Governor’s executive authorization at the beginning of such year, distribution of the excess amount to the Commission may be delayed until a new executive authorization is obtained, which may not occur until the beginning of the next fiscal year of the Commonwealth. The Commission has irrevocably directed the Treasurer to make payment of all such amounts directly to the Trustee, and the Trustee, upon receipt of such amounts, shall deposit the moneys, as received, into the Revenue Fund created under the Indenture. See “OIL FRANCHISE TAX – Commission Allocation.”

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

The Trustee shall withdraw from the Revenue Fund and deposit into the applicable Fund, on or before the last Business Day of each calendar month, in the following order of priority:

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

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

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

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

After making all the aforesaid deposits, the Trustee is required to transfer from the Revenue Fund, on or before the Business Day immediately preceding an Interest Payment Date, to the credit of the Oil Franchise Tax General Fund the balance, if any, in excess of \$10 million remaining in the Revenue Fund. As of May 2, 2018, the balance in the Oil Franchise Tax General Fund was \$144,188,127.65. As of May 2, 2018, the balance in the Revenue Fund was \$56,933,348.98. Funds in the Oil Franchise Tax General Fund represent excess oil franchise tax revenues not required for debt service and such funds may be used by the Commission for any of its purposes. The Commission currently intends to use a portion of these funds towards Act 61 eligible projects and to provide certain support to the MVR Bonds (as defined below). See “SECURITY FOR THE 2018 Bonds – Revenue Fund Excess Balance and Oil Franchise Tax General Fund” and “OIL FRANCHISE TAX – Act 3.”

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

Subordinated Bonds Debt Service Reserve Fund

The Indenture established a Subordinated Bonds Debt Service Reserve Fund (the “*Subordinated Bonds Debt Service Reserve Fund*”) for the benefit of the holders of the Subordinated Bonds on a parity basis. The Subordinated Bonds Debt Service Reserve Requirement for the Subordinated Bonds Debt Service Reserve Fund is an amount equal to one-half of the maximum Principal and Interest Requirements for any succeeding Fiscal Year on account of the Subordinated Bonds. As of the date of this Official Statement, the Subordinated Bonds Debt Service Reserve Fund is fully funded with cash and securities in the amount of \$11,276,085.39.

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

In lieu of the deposit of money into the Subordinated Bonds Debt Service Reserve Fund, the Commission may cause to be provided a surety bond or insurance policy payable to the Trustee for the benefit of the holders of the Subordinated Bonds. The surety bond or insurance policy shall be payable (upon the giving of one Business Days’ notice) on any Interest Payment Date on which moneys will be required to be withdrawn from the Subordinated Bonds Debt Service Reserve Fund and applied to the payment of the principal of or interest on the Subordinated Bonds to the extent that such withdrawals cannot be made from amounts credited to the Subordinated Bonds Debt Service Reserve Fund. It is anticipated that funds on deposit securing the Subordinated Bonds will be sufficient to pay principal of and interest on, when due, on the Subordinated Bonds, even taking into account debt service requirements with respect to the 2018B Bonds.

If the issuer of a surety bond or insurance policy on deposit in the Subordinated Bonds Debt Service Reserve Fund shall cease to have a rating described in the immediately preceding paragraph, the issuer of such surety bond or insurance policy shall

immediately notify the Commission and the Trustee in writing, and the Commission shall use reasonable efforts to replace such surety bond or insurance policy with one issued by an issuer having a rating so described, but shall not be obligated to pay, or commit to pay, increased fees, expenses, or interest in connection with such replacement or to deposit Tax Revenues in the Subordinated Bonds Debt Service Reserve Fund in lieu of replacing such surety bond or insurance policy with another. **Holders of the Senior Bonds, including the 2018A Bonds, shall have no claim to the Subordinated Bonds Debt Service Reserve Fund.**

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

Revenue Fund Excess Balance and Oil Franchise Tax General Fund

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

The Oil Franchise Tax General Fund shall be used to make up deficiencies in any funds or accounts created under the Indenture and, in the absence of any such deficiency, may be expended by the Commission: (a) to purchase or redeem Bonds or any other obligations issued by the Commission; (b) to make payments into the Construction Fund; (c) to fund improvements, extensions and replacements of the Pennsylvania Turnpike System; (d) to make any payment due under the Parity Swap Agreements that was not paid by moneys withdrawn from the Revenue Fund (provided the Commission has moneys available to pay debt service on the Senior Obligations for the next 12 months); or (e) to further any lawful corporate purpose permitted by the Enabling Acts. The balance in the Oil Franchise Tax General Fund as of May 2, 2018 was \$144,188,127.65 and the balance in the Revenue Fund as of May 2, 2018 was \$56,933,348.98. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – THE INDENTURE – Oil Franchise Tax General Fund.”

Additional Bonds

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

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

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

“*Tax Revenues*” are defined in the Indenture as the Tax Receipts or any receipts, revenues and other money received by the Trustee on or after the date of the Indenture from any tax or other source of funds from the Commonwealth in substitution and/or replacement of the Tax Receipts and the interest and income earned on any fund or account where said interest or income is required to be credited to the Revenue Fund pursuant to the Indenture, but excluding any moneys received by way of grant or contribution from any governmental agency or other entity specifically designated by the grantor or contributor for a particular purpose.

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

Additional Bonds for Refunding Purposes

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

Obligations Secured by Other Revenue Sources

The Commission has also issued Turnpike Revenue Bonds that as of the date of this Official Statement are outstanding in the aggregate principal amount of \$5,147,895,000, Registration Fee Revenue Bonds that as of the date of this Official Statement are outstanding in the aggregate principal amount of \$386,510,000, Motor License Fund-Enhanced Subordinate Special Revenue Bonds that as of the date of this Official Statement are outstanding in the aggregate principal amount of \$980,241,247.05 (including compounded amounts as of June 1, 2018), and Subordinate Revenue Bonds that as of the date of this Official Statement are outstanding in the aggregate principal amount of \$5,156,644,139.95 (including compounded amounts as of June 1, 2018). The Commission has entered into various interest rate exchange agreements with respect to certain Turnpike Revenue Bonds, Registration Fee Revenue Bonds and Subordinate Bonds. Neither the Turnpike Revenue Bonds, the Registration Fee Revenue Bonds, the Motor License Fund-Enhanced Subordinate Special Revenue Bonds nor the Subordinate Revenue Bonds are secured by or have any interest in the Trust Estate. Furthermore, neither the Tolls, Registration Fee Revenues, nor moneys in the Motor License Fund are pledged to secure the 2018 Bonds. See APPENDIX A – “THE PENNSYLVANIA TURNPIKE COMMISSION – CERTAIN OTHER INFORMATION – Revenue Sources of the Commission.”

Parity Swaps

In connection with the issuance of the 2003C Bonds, the Commission entered into interest rate swap agreements (the “*Parity Swaps*”) in order to manage interest rate risk on such Bonds. The total notional amount of the Parity Swaps is \$400 million. The Parity Swaps are on parity with the outstanding principal amounts of the related 2003C Bonds.

In conjunction with the refunding of the 2003C Bonds, the Commission reassigned the swap agreements then associated with such 2003C Bonds, 10.05% to the 2009B Bonds and 89.95% to the 2016A Bonds, and canceled the swap insurance policy issued by National and insuring one of the Parity Swaps. For two of these agreements (both with JP Morgan), the Commission successfully negotiated modifications of certain credit terms for the continuation of the Parity Swaps. The Office of the Attorney General approved these modifications to the Parity Swaps.

The following chart summarizes certain terms of the Parity Swaps and shows the series of bonds to which the Parity Swaps will relate.

PARITY SWAPS OF THE COMMISSION
(as of March 31, 2018)

| <u>Bond Series</u> | <u>Notional Amount (USD)</u> | <u>Counterparty</u> | <u>Effective Date</u> | <u>Type of Transaction</u> |
|--------------------|------------------------------|---------------------|-----------------------|----------------------------|
| 2009B, 2016A | 80,000,000 | JP Morgan | 5/15/2014 | LIBOR/CMS Basis |
| 2009B, 2016A | 80,000,000 | RBC | 5/15/2018 | LIBOR/CMS Basis |
| 2009B, 2016A | 80,000,000 | Wells Fargo | 5/15/2014 | LIBOR/CMS Basis |
| 2009B, 2016A | 48,000,000 | Bank of New York | 8/14/2003 | SIFMA/LIBOR Basis |
| 2009B, 2016A | 112,000,000 | JP Morgan | 8/14/2003 | SIFMA/LIBOR Basis |

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OIL FRANCHISE TAX

The Oil Franchise Tax was first imposed in 1981 by Act 35, in the amount of 35 mills on each gallon of petroleum sold. The tax was increased by an additional 25 mills in 1983 by Act 32 and an additional 55 mills in 1991 by Act 26. With Act 3 of 1997, the tax was increased by an additional 38.5 mills to a total of 153.5 mills on all liquid fuels (primarily gasoline) and an additional 55 mills (for a total increase of 93.5 mills) for a total of 208.5 mills on liquid fuels and other fuels (diesel fuel and all other special fuels except dyed diesel fuel, liquid fuels and alternative fuels). Following the passage of Act 89, the distribution of the revenues derived from the Oil Franchise Tax was adjusted as reflected below. Additionally, the changes to the collection of additional revenue from the Oil Franchise Tax authorized by Act 89 has increased the amount of revenue available to the Commission for the purposes discussed herein. See “OIL FRANCHISE TAX – Act 89” below.

The additional 55 mills added in 1991, imposed on liquid fuels and fuels, are distributed pursuant to Act 89 as follows beginning on July 1, 2016:

- (i) 19% Maintenance;
- (ii) 40% Highway capital projects;
- (iii) 13% Bridges;
- (iv) 2% County and forestry bridges;
- (v) 12% Municipalities;
- (vi) 14% Toll Roads.

Commission Allocation

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

The administrative process for paying the Commission Allocation involves an executive authorization, based on official revenue estimates, executed by the Governor each year at or prior to the beginning of the Commonwealth’s fiscal year which ends on June 30 each year. The Commission’s fiscal year ends on May 31 each year. The Governor is required by law to authorize payment of the Commission Allocation.

Such authorization is based on estimated Oil Franchise Taxes at the beginning of the year and authorizes payment of the Commission Allocation monthly as described above based on such estimates. If the amount collected during the year varies from the estimate, a reconciliation is prepared by the Commonwealth and there is a subsequent adjustment of payments. Payments to the Commission are made in accordance with the current Department of Revenue administrative procedure, on a priority basis over other uses of the Oil Franchise Tax. This priority procedure is not mandated by statute.

Pledge and Appropriation

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

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

In connection with the issuance of the 2018 Bonds, Co-Bond Counsel will deliver their opinion that, pursuant to the Oil Franchise Tax Act, the Commission Allocation has been appropriated by the Commonwealth and the payment of the Commission Allocation to the Commission by the Commonwealth does not require further legislative appropriation or approval. See APPENDIX D – “FORM OF OPINION OF CO-BOND COUNSEL.”

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

The Trustee may and, upon receipt of written direction from the holders of not less than twenty-five (25%) in principal amount of the Bonds then outstanding and upon being indemnified to its satisfaction, shall institute and prosecute in a court of competent jurisdiction any appropriate action to enforce the pledge and appropriation of the Commonwealth with respect to the Oil Franchise Tax.

Act 3

Act 3, which was enacted on April 17, 1997, revised certain of the provisions of Act 26 which contains the appropriation of the Commission Allocation of the Oil Franchise Tax. These revisions include the clarification of the definitions of liquid fuels and fuels as the subjects of the tax. In addition, Act 3 designated distributors rather than the previously designated dealers to be the payors of the Oil Franchise Tax.

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

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

Pursuant to Act 3, the first \$28 million of statewide motor vehicle registration fees collected annually is deposited in the Motor License Fund and is allocated to the Commission. The Commission has fully leveraged those monies to secure bonds issued by the Commission in 2005 and remarketed in 2015 (the “*MVR Bonds*”). When the Commission remarketed the MVR Bonds in 2015, it pledged to use any available balances in the Oil Franchise Tax General Fund to replenish either of two liquidity accounts (the “*MVR Liquidity Accounts*”) supporting the MVR Bonds. The MVR Bonds are secured under a separate indenture and by a trust estate entirely separate and distinct from the Trust Estate supporting the 2018 Bonds, with the sole exception of the supplemental credit pledge of the Oil Franchise Tax General Fund. Funds in the Oil Franchise Tax General Fund represent excess oil franchise tax revenues not required for debt service and such funds may be used by the Commission for any of its purposes. The MVR Liquidity Accounts are each required to maintain a \$22.5 million balance and collectively, the combined accounts are required to maintain a \$45 million aggregate balance. The MVR Liquidity Accounts are used to make up for an anticipated short fall in available MVR revenues versus MVR fixed and variable rate debt service plus swap payments.

In prior years, the fixed \$28 million received by the Commission pursuant to Act 3 was sufficient to pay all debt service on the MVR Bonds as issued and outstanding between 2005-2017. However, based on current rates and the updated structure of the 2015 direct placement of the MVR Bonds, it is expected that there could be up to a \$1,200,000 draw annually on the Oil Franchise Tax General Fund to support the MVR Bonds from 2018-2020. As of May 2, 2018, the Oil Franchise Tax General Fund had a balance of \$144,188,127.65 and it is not anticipated that the required annual \$1,200,000 from the Oil Franchise Tax General Fund to pay debt service on the MVR Bonds will materially adversely impact the Commission’s ability to pay debt service on the 2018 Bonds.

Act 89

On November 25, 2013, Act 89 was enacted to provide substantial additional and sustained investment in the Commonwealth of Pennsylvania’s aging transportation infrastructure. With respect specifically to the Commission, the revenue

enhancements enacted in Act 89 are projected to generate substantial additional funds each year for investment in the Commission's transportation infrastructure. Among other things, Act 89 amended provisions that over a period of five years eliminated the cap on the average wholesale price per gallon of all taxable liquid fuels and fuels for purposes of calculating the Oil Franchise Tax. See "OIL FRANCHISE TAX – Collection and Calculation of Oil Franchise Tax." The additional revenues to be made available to the Commission pursuant to Act 89 will be used generally for construction, reconstruction, maintenance and repair of and safety on public highways and bridges and costs and expenses incident thereto, including security for all Bonds outstanding under the Indenture, including the 2018 Bonds.

Liquid Fuels and Fuels as the Subjects of Oil Franchise Tax

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

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

"*Fuels*" are defined as including diesel fuel and all combustible gases and liquids used for the generation of power in aircraft or aircraft engines, or used in an internal combustion engine for the generation of power to propel vehicles on the public highways. The term does not include liquid fuels or dyed diesel fuel.

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

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

Collection and Calculation of Oil Franchise Tax

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

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

The collection on a "cents-per-gallon equivalent basis" (millage rate) is defined as the average wholesale price per gallon multiplied by the decimal equivalent of the tax imposed which, in the case of the Commission, is the additional 55 mills added in 1991 multiplied by 14%. The average wholesale price means the average wholesale price per gallon of all taxable liquid fuels and fuels, excluding the federal excise tax and all liquid fuels taxes, as determined by the Department of Revenue for the 12-month period ending on the September 30 immediately prior to January 1 of the year for which the rate is to be set. Prior to the enactment of Act 89, there was a statutorily imposed cap on the average wholesale price for purposes of calculating the Oil Franchise Tax in

which the average wholesale price was capped at a maximum of \$1.25 per gallon. This level was well below wholesale market prices for fuel and had the effect of artificially reducing Oil Franchise Tax revenues to both the Commonwealth and the Commission. With the enactment of Act 89 in November 2013, the Commonwealth, over a period of five years ending in fiscal year 2018, is eliminating the cap on the average wholesale price for the purpose of calculating the Oil Franchise Tax. In addition to eliminating the statutory cap on the average wholesale price, Act 89 also establishes minimum levels, or “floors,” to be used in the calculation of average wholesale price. From January 1, 2014 to December 31, 2014 Act 89 set the average wholesale price at \$1.87 per gallon. From January 1, 2015 to December 31, 2016 the average wholesale price is statutorily set at \$2.49 per gallon. Further, for any period after December 31, 2016, the Pennsylvania Department of Revenue shall calculate the average wholesale price for the 12-month period ending on September 30 immediately prior to the January 1 of the year for which the rate is to be set. More importantly, Act 89 also states that in no case shall the average wholesale price be less than \$2.99 per gallon after December 31, 2016. By Fiscal Year 2018, the revisions to Act 89 increased the Commission’s Oil Franchise Tax receipts from an average of \$61 million annually to over \$143 million annually

Amounts of Oil Franchise Tax Collected

The following table lists the amounts of Oil Franchise Tax collected by the Commonwealth and deposited into the Motor License Fund in each of the last five fiscal years of the Commonwealth and sets forth the estimated Oil Franchise Tax collections for fiscal years 2018 through 2022 as set forth in the Governor’s Executive Budget for the Commonwealth’s fiscal year 2019, which commences on July 1, 2018. The historical Commission Allocation presented below reflects actual receipts by the Commission.

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

| <u>Fiscal Year Ended June 30</u> | <u>Tax Collected¹</u> | <u>Commission Allocation^{2,3}</u> |
|----------------------------------|----------------------------------|--|
| Actual | | |
| 2013 | \$429,543 | \$60,285 |
| 2014 | 515,346 | 65,089 |
| 2015 | 721,220 | 95,638 |
| 2016 | 841,279 | 121,130 |
| 2017 | 906,042 | 120,754 |
| Estimated** | | |
| 2018 | 1,019,600 | 142,793* |
| 2019 | 1,021,200 | 142,968 |
| 2020 | 1,022,600 | 143,164 |
| 2021 | 1,024,000 | 143,360 |
| 2022 | 1,025,400 | 143,556 |

*This amount is equal to the unaudited Commission Allocation for FY 18, which is \$142,793,379.95

** The estimates set forth in the preceding table are those used or are otherwise derived from the Governor’s Executive Budget for Fiscal Year 2018-19. The estimates are calculated based on prior year revenues and reasonable expectations of receipts based on prior year revenues. There can be no assurance that the Commission allocation or the estimated available revenues in the years shown will not vary materially and/or adversely from the estimates.

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

² Amount determined at the end of the Commission’s fiscal year ending May 31 of each year.

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

Historical Consumption Amounts

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

Historical Gallonage Consumption for Oil Franchise Tax Gasoline and Diesel Fuels

| Commonwealth Fiscal Year Ending June 30 | Gasoline | Diesel | Total Gallonage |
|--|-----------------|---------------|------------------------|
| 2008 | 4,924,688,321 | 1,359,136,424 | 6,283,824,745 |
| 2009 | 4,910,855,824 | 1,286,139,537 | 6,196,995,361 |
| 2010 | 4,956,397,661 | 1,268,327,770 | 6,224,725,431 |
| 2011 | 5,022,408,136 | 1,335,960,491 | 6,358,368,627 |
| 2012 | 5,009,865,770 | 1,359,890,824 | 6,369,756,594 |
| 2013 | 4,930,872,445 | 1,346,217,079 | 6,277,089,524 |
| 2014 | 4,894,799,583 | 1,368,234,811 | 6,263,034,394 |
| 2015 | 4,901,588,125 | 1,377,637,478 | 6,279,225,603 |
| 2016 | 4,849,456,308 | 1,298,310,424 | 6,147,766,732 |
| 2017 | 4,853,946,130 | 1,288,257,797 | 6,142,203,927 |
| 2018* | 2,062,412,217 | 562,307,730 | 2,624,719,947 |

*Gallonage consumption from July 2017 through November 2017, for FYE 2018.

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Debt Service Schedule¹

| Fiscal Year Ending 31-May | Existing Debt Service on Senior Bonds | Series 2018A Bonds Debt Service | Total Debt Service on Senior Bonds | Existing Debt Service on Subordinated Bonds | Series 2018B Bonds Debt Service | Total Debt Service on Subordinated Bonds | Combined Total Debt Service² |
|----------------------------------|--|--|---|--|--|---|--|
| 2019 | \$26,593,803 | \$5,849,061 | \$32,442,864 | \$19,545,878 | \$5,212,289 | \$24,758,167 | \$57,201,030 |
| 2020 | 26,601,903 | 11,963,988 | 38,565,891 | 19,547,628 | 10,661,500 | 30,209,128 | 68,775,019 |
| 2021 | 25,863,628 | 11,963,988 | 37,827,616 | 19,111,428 | 10,661,500 | 29,772,928 | 67,600,544 |
| 2022 | 25,883,228 | 11,963,988 | 37,847,216 | 19,128,328 | 10,661,500 | 29,789,828 | 67,637,044 |
| 2023 | 26,730,578 | 11,963,988 | 38,694,566 | 19,631,028 | 10,661,500 | 30,292,528 | 68,987,094 |
| 2024 | 26,747,928 | 11,963,988 | 38,711,916 | 19,644,978 | 10,661,500 | 30,306,478 | 69,018,394 |
| 2025 | 25,828,750 | 11,963,988 | 37,792,738 | 20,850,547 | 10,661,500 | 31,512,047 | 69,304,785 |
| 2026 | 26,670,486 | 11,963,988 | 38,634,474 | 20,797,474 | 10,661,500 | 31,458,974 | 70,093,448 |
| 2027 | 26,688,384 | 11,963,988 | 38,652,372 | 19,577,323 | 10,661,500 | 30,238,823 | 68,891,195 |
| 2028 | 26,709,949 | 11,963,988 | 38,673,937 | 19,605,713 | 10,661,500 | 30,267,213 | 68,941,150 |
| 2029 | 26,733,063 | 11,963,988 | 38,697,051 | 19,581,450 | 10,661,500 | 30,242,950 | 68,940,001 |
| 2030 | 26,756,325 | 11,963,988 | 38,720,313 | 19,593,968 | 10,661,500 | 30,255,468 | 68,975,781 |
| 2031 | 26,782,614 | 11,963,988 | 38,746,602 | 19,635,913 | 10,661,500 | 30,297,413 | 69,044,015 |
| 2032 | 26,804,741 | 11,963,988 | 38,768,729 | 19,654,627 | 10,661,500 | 30,316,127 | 69,084,856 |
| 2033 | 26,831,245 | 11,963,988 | 38,795,233 | 19,679,353 | 10,661,500 | 30,340,853 | 69,136,086 |
| 2034 | 29,469,686 | 11,963,988 | 41,433,674 | 21,804,163 | 10,661,500 | 32,465,663 | 73,899,337 |
| 2035 | 29,488,567 | 11,963,988 | 41,452,555 | 21,822,497 | 10,661,500 | 32,483,997 | 73,936,552 |
| 2036 | 29,505,767 | 11,963,988 | 41,469,755 | 21,839,324 | 10,661,500 | 32,500,824 | 73,970,579 |
| 2037 | 29,529,955 | 11,963,988 | 41,493,943 | 21,853,400 | 10,661,500 | 32,514,900 | 74,008,843 |
| 2038 | 29,284,418 | 11,963,988 | 41,248,406 | 18,928,481 | 10,661,500 | 29,589,981 | 70,838,387 |
| 2039 | 29,000,000 | 11,963,988 | 40,963,988 | | 25,456,500 | 25,456,500 | 66,420,488 |
| 2040 | 29,000,000 | 11,963,988 | 40,963,988 | | 25,456,750 | 25,456,750 | 66,420,738 |
| 2041 | | 40,398,988 | 40,398,988 | | 25,455,000 | 25,455,000 | 65,853,988 |
| 2042 | | 40,396,150 | 40,396,150 | | 25,454,500 | 25,454,500 | 65,850,650 |
| 2043 | | 40,395,088 | 40,395,088 | | 25,458,250 | 25,458,250 | 65,853,338 |
| 2044 | | 40,396,600 | 40,396,600 | | 25,459,000 | 25,459,000 | 65,855,600 |
| 2045 | | 40,396,225 | 40,396,225 | | 25,454,750 | 25,454,750 | 65,850,975 |
| 2046 | | 20,724,500 | 20,724,500 | | 25,456,000 | 25,456,000 | 46,180,500 |
| 2047 | | 20,722,000 | 20,722,000 | | 25,456,250 | 25,456,250 | 46,178,250 |
| 2048 | | 20,727,000 | 20,727,000 | | 25,458,000 | 25,458,000 | 46,185,000 |
| 2049 | | 20,727,000 | 20,727,000 | | 25,458,500 | 25,458,500 | 46,185,500 |
| Total | \$603,505,018 | \$541,976,348 | \$1,145,481,366 | \$401,833,501 | \$487,804,289 | \$889,637,790 | \$2,035,119,156 |

(1) Totals may not add due to rounding.

(2) Debt Service reflects receipt of the Issuer Subsidy with respect to Oil Franchise Tax Build America Bonds. For each fiscal year, assumes a reduction of 6.6% of the Issuer Subsidy due to sequestration. See "CERTAIN RISK FACTORS; Reduction in federal subsidy payable to the Commission for its outstanding Build America Bonds due to sequestration."

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Debt Service Coverage

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

HISTORICAL OIL FRANCHISE TAX DEBT SERVICE COVERAGE

| Commission Fiscal Year Ending May 31⁵ | Tax Receipts¹ | Senior Debt Service^{2,5} | Senior Coverage | Total Debt Service^{3,5} | Total Coverage⁴ |
|---|---------------------------------|--|----------------------------|---|---------------------------------------|
| 2013 | \$60,285 | \$29,209 | 2.06 | \$50,770 | 1.19 |
| 2014 | 65,089 | 28,817 | 2.26 | 49,893 | 1.30 |
| 2015 | 95,638 | 28,543 | 3.35 | 49,766 | 1.92 |
| 2016 | 121,130 | 29,296 | 4.13 | 50,516 | 2.40 |
| 2017 | 120,754 | 29,883 | 4.04 | 49,959 | 2.42 |

¹ Actual Commission Allocation received.

² Computed on a fiscal year basis. The Commission's fiscal year ends May 31st.

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

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

⁵ Debt Service reflects receipt of the Issuer Subsidy with respect to Oil Franchise Tax Build America Bonds. See "CERTAIN RISK FACTORS – Reduction in federal subsidy payable to the Commission for its outstanding Build America Bonds due to sequestration."

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PROJECTED OIL FRANCHISE TAX DEBT SERVICE COVERAGE

| Commission Fiscal Year Ending May 31 | Estimated Tax Receipts¹ | Senior Debt Service^{2,5} | Estimated Senior Coverage | Total Debt Service^{3,5} | Estimated Total Coverage⁴ |
|---|---|--|--|---|---|
| 2018 | \$142,744 | \$26,580 | 5.37 | \$46,115 | 3.10 |
| 2019 | 142,968 | 32,443 | 4.41 | 57,201 | 2.50 |
| 2020 | 143,164 | 38,566 | 3.71 | 68,775 | 2.08 |
| 2021 | 143,360 | 37,828 | 3.79 | 67,601 | 2.12 |
| 2022 | 143,556 | 37,847 | 3.79 | 67,637 | 2.12 |

¹ Projected Commission Allocation based on the Fiscal Year 2018 Governor’s Executive Budget.

² Computed on a fiscal year basis. Includes debt service from the 2018A Bonds.

³ Computed on a fiscal year basis and includes senior debt service described in footnote 2, but with the addition of the Principal and Interest Requirements on Subordinated Bonds. Includes debt service from the 2018B Bonds.

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

⁵ Debt Service reflects receipt of the Issuer Subsidy with respect to Oil Franchise Tax Build America Bonds. For each fiscal year, assumes a reduction of 6.6% of the Issuer Subsidy due to sequestration. See “CERTAIN RISK FACTORS – Reductions in federal subsidy payable to the Commission for its outstanding Build America Bonds due to sequestration.”

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CERTAIN RISK FACTORS

There are various factors which could adversely affect the sufficiency of the Trust Estate and which, if present, may result in an inability of the Commission to meet the debt service requirements on the 2018 Bonds. The following is intended only as a summary of certain risk factors attendant to an investment in the 2018 Bonds and is not intended to be exhaustive. In order to identify risk factors and make informed investment decisions, potential investors should be thoroughly familiar with the entire Official Statement (including each Appendix hereto), and the Indenture in order to make a judgment as to whether the 2018 Bonds are an appropriate investment. The following risk factors are among those which should be considered by a potential investor:

Oil Franchise Tax Revenues may decline

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

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

Investors in the 2018B Bonds bear greater risk of non-payment because the priority of payment of interest and principal payments on the 2018B Bonds is subordinate to all Senior Obligations under the Indenture

The 2018B Bonds are subordinate in right of payment to the payment of all Senior Bonds under the Indenture and payments under Parity Swap Agreements to Senior Bonds. In addition, it is possible that additional senior bonds and other senior obligations may be issued in the future by the Commission under the Indenture, which would increase the amount of Senior Bonds and such other payments to which payment on the 2018B Bonds is subordinated, thus increasing the risk of nonpayment to 2016B Bondholders.

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

Adverse changes in the financial condition of certain third-party financial institutions, including swap counterparties, providers of credit facilities (including providers of direct-pay letters of credit and bond insurers which have issued or may issue insurance policies on one or more series of Bonds) may adversely affect the Commission's financial position. Different types of investment and contractual arrangements may create exposure for the Commission to such institutions including:

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

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

From time to time legislation is introduced in the Pennsylvania General Assembly which may affect the Commission and therefore may affect certain of the assumptions made in this Official Statement. The Commission cannot predict if any of such bills or other legislation will be enacted into law, or how any such legislation may affect the Commission's ability to timely pay the 2018 Bonds. See APPENDIX A – "THE PENNSYLVANIA TURNPIKE COMMISSION."

Bankruptcy risk; Lien position

The rights and remedies of Bondholders could be limited by the provisions of the Federal Bankruptcy Code, as now or hereafter enacted (the "**Bankruptcy Code**"), or by other laws or legal or equitable principles which may affect the enforcement of creditors' rights. Chapter 9 of the Bankruptcy Code permits, under prescribed circumstances, a political subdivision or public agency or instrumentality of a state, such as the Commission, to commence a voluntary bankruptcy proceeding and to file a plan of adjustment in the repayment of its debts, if such entity is generally not paying its debts as they become due (unless such debts are the subject of a bona fide dispute), or is unable to pay its debts as they become due.

Under the Bankruptcy Code, an involuntary petition cannot be filed against a political subdivision, public agency or instrumentality of a state.

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

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

As of July 1, 2017, the Commission had \$1,104,075,000 in principal amount of Build America Bonds outstanding, and is entitled to receive approximately \$22,386,870.80 in federal subsidy (the "**Issuer Subsidy**") annually with respect to such Build America Bonds. Based on guidance by the IRS issued in August of 2017, the subsidy is reduced by 6.6% or \$322,815 for payments from October 1, 2017 to September 30, 2018. The Commission has pledged the Issuer Subsidy as security for 2009B Bonds and the 2009E Bonds. A series of automatic federal deficit reduction spending cuts known as "sequestration" became effective on March 1, 2013 as a result of the failure by Congress to adopt alternative deficit reduction legislation. Sequestration will affect the amount of the Issuer Subsidy with respect to the Commission's outstanding Build America Bonds. The Commission currently has \$229,675,000 in principal amount of Build America Bonds outstanding which are secured pursuant to the Indenture, and is entitled to receive approximately \$4,891,134 in federal subsidy annually with respect to such Oil Franchise Tax Build America Bonds. Based on guidance issued by the Internal Revenue Service in March 2013, the amount of such federal subsidy payable to the Commission regarding its Oil Franchise Tax Build America Bonds outstanding was reduced by 8.7% or approximately \$212,764 applicable to the June 1, 2013 debt service payment during fiscal year 2014. Pursuant to the Bipartisan Budget Act of 2013 (Public Law 113-67), such federal subsidy was reduced by 7.2% or approximately \$352,162 for payments through September 30, 2014. Based on guidance issued by the IRS, such federal subsidy was reduced by 7.3% or approximately \$357,053 for payments from October 1, 2014 through September 30, 2015, by 6.8% or approximately \$332,597 for payments from October 1, 2015 through September 30, 2016 and by 6.9% or approximately \$337,488 for payments from October 1, 2016 through September 30, 2017. Reductions in future federal fiscal years are currently unknown. Adverse changes in the amount of the Issuer Subsidy the Commission receives may require the Commission to use other funds to offset the loss of this subsidy.

Possible changes in federal or Commonwealth tax laws could affect the excludability or deductibility of interest on tax-exempt bonds such as the 2018 Bonds

Current and future legislative proposals, if enacted into law, could cause interest on the 2018 Bonds to be subject, directly or indirectly, to federal income taxation, or to be subject to or not be exempted from income taxation imposed by the Commonwealth, or otherwise prevent the owners of the 2018 Bonds from realizing the full current benefit of the tax status of such interest. The introduction and/or enactment of any such legislative proposals may also affect the market price for, or marketability of, the 2018 Bonds. Prospective purchasers of the 2018 Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation, as to which Co-Bond Counsel will express no opinion. See “TAX MATTERS.”

Litigation and Other Actions Against the Commission

The Commission is subject to litigation from time to time and may be subject to litigation and other actions in the future which could adversely affect the financial position of the Commission. The Commission cannot predict when or if any action will be brought against the Commission in the future, and, if brought, whether any action would be successful or result in monetary damages or other relief being imposed upon the Commission. See “LITIGATION” below. See also APPENDIX A – “THE PENNSYLVANIA TURNPIKE COMMISSION – THE COMMISSION – Recent Developments and Pending Legislation– Commission Litigation.”

The 2018 Bonds may be repaid early due to the exercise of the redemption option. If this happens, yield may be affected and Bondholders will bear reinvestment risk

The 2018 Bonds may be redeemed prior to their final maturities if the Commission exercises its option to redeem 2018 Bonds. Bondholders bear the risk that monies received upon such redemptions cannot be reinvested in comparable securities or at comparable yields.

Uncertainty as to available remedies

The remedies available to owners of the 2018 Bonds upon an Event of Default under the Indenture or other documents described herein are in many respects dependent upon regulatory and judicial actions which often are subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies specified by the Indenture and such other documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the issuance of the 2018 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.

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AUDITED FINANCIAL STATEMENTS

The financial statements of the Commission for the fiscal years ended May 31, 2017 and May 31, 2016 are set forth in APPENDIX B – “AUDITED 2017 AND 2016 FINANCIAL STATEMENTS” certified by Mitchell Titus (2017) and Zelenkofske Axelrod, LLC (2016), in their capacity as independent auditor. The Commission has not asked Mitchell Titus or Zelenkofske Axelrod, LLC to perform any additional review procedures in connection with this Official Statement. **The basic financial statements of the Commission for fiscal years ended May 31, 2018 and May 31, 2017 are expected to be released in September 2018 and made available through EMMA (defined below) as discussed under “CONTINUING DISCLOSURE” herein. While the audited financial statements of the Commission pertain to the Commission as a whole, payment of the 2018 Bonds is secured solely by the Trust Estate which includes a portion of the revenues derived from the Oil Franchise Tax but not certain other revenues of the Commission which are reported in such audited financial statements (e.g. revenues derived from Tolls, Registration Fee Revenues and certain other revenues of the Commission are not part of the Trust Estate securing the 2018 Bonds.)**

CONTINUING DISCLOSURE

The Commission will enter into a Continuing Disclosure Undertaking for the benefit of the Registered Owners from time to time of the 2018 Bonds (the “*Disclosure Undertaking*”) pursuant to Rule 15c2-12 promulgated by the United States Securities and Exchange Commission (the “*SEC*”) under the Securities Act of 1933, as amended.

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

(a) Within 180 days of the end of each fiscal year of the Commission commencing with the fiscal year ended May 31, 2018, annual financial information (collectively, the “*Annual Financial Information*”), consisting of: the Commission’s annual audited financial statements and financial and operating data of the type set forth in this Official Statement regarding the annual amounts of the Oil Franchise Tax revenues collected by the Commonwealth and the annual amounts of the Commission Allocation, and those in Tables I, II and III of APPENDIX A – “THE PENNSYLVANIA TURNPIKE COMMISSION,” as well as a summary of any material legislative or regulatory developments affecting Act 44 or Act 89. In the event that audited financial statements are not available within 180 days after the close of the applicable fiscal year, the Annual Financial Information will contain unaudited financial statements and the audited financial statements will be provided for filing when available.

(b) Notice of the occurrence of any of the following events with respect to the 2018 Bonds, within ten (10) business days after the occurrence of such event: (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the 2018 Bonds or other events affecting the tax status of the 2018 Bonds; (vii) modifications to rights of holders of the 2018 Bonds, if material; (viii) 2018 Bond calls, if material, and tender offers; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the 2018 Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar proceeding of the Commission; (xiii) consummation of a merger, consolidation or acquisition involving the Commission or the sale of all or substantially all of the assets of the Commission, other than in the ordinary course of business, the entry of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

The foregoing fourteen (14) events are quoted from the Rule. The SEC requires inclusion of the events listed in clauses (i) through (xiv) above, although some of such events may not be applicable to the 2018 Bonds.

The Commission may amend the Disclosure Undertaking and waive any of the provisions thereof, but no such amendment or waiver shall be executed and effective unless: (i) the amendment or waiver is made in connection with a change in legal requirements, change in law or change in the identity, nature or status of the Commission or the

governmental operations conducted by the Commission; (ii) the Disclosure Undertaking, as modified by the amendment or waiver, would have been the written undertaking contemplated by the Rule at the time of original issuance of the 2018 Bonds, taking into account any amendments or interpretations of the Rule; and (iii) the amendment or waiver does not materially impair the interests of the Registered Owners of the 2018 Bonds. Evidence of compliance with the foregoing conditions shall be satisfied by delivery to the Commission of an opinion of counsel having recognized skill and experience in the issuance of municipal securities and federal securities law to the effect that the amendment or waiver satisfies the conditions set forth in the preceding sentence. Notice of any amendment or waiver shall be filed by the Commission with each Repository (presently only the MSRB by electronic transmissions under EMMA) and shall be sent to the Registered Owners of the 2018 Bonds.

The Disclosure Undertaking will recite that it is entered into for the benefit of the Registered Owners from time to time of the 2018 Bonds. For the purposes of the Disclosure Undertaking, for so long as the 2018 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 2018 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 2018 Bonds or the Indenture, and the sole remedy to enforce the provisions of the Disclosure Undertaking shall be the right of any Registered Owner, by mandamus, suit, action or proceeding at law or in equity, to compel the Commission to perform the provisions and covenants contained in the Disclosure Undertaking.

The Disclosure Undertaking will terminate (1) upon payment or provision for payment in full of the 2018 Bonds, (2) upon repeal or rescission of Section (b)(5) of the Rule, or (3) upon a final determination that Section (b)(5) of the Rule is invalid or unenforceable. A copy of the Disclosure Undertaking is on file at the principal office of the Commission.

Approximately 58 separate continuing disclosure undertakings were in effect during the five (5) year period preceding the date of this Official Statement relating to over 100 series and subseries of bonds issued by the Commission. In connection with approximately five (5) of those undertakings (which cover approximately eighteen (18) series and subseries of bonds), the Commission failed to provide (on or before the required deadlines) certain annual disclosure concerning either Act 3 Registration Fee Revenue or Oil Franchise Tax Revenue collected by the Commonwealth for fiscal years ending 2013-2014, as applicable.

Each of the forgoing described disclosures was subsequently filed through EMMA on or about September 30, 2015. Notice of the failure to timely provide such disclosures was filed with the MSRB (via EMMA) on July 22, 2016. None of the forgoing described instances of late filings should be construed as an acknowledgement by the Commission that any such instance was material.

RELATIONSHIPS OF CERTAIN PARTIES

Duane Morris LLP, co-counsel to the underwriters, from time to time represents the Commission in matters unrelated to this financing.

PFM Financial Advisors LLC, Financial Advisor to the Commission and its affiliate PFM Asset Management, LLC are engaged to provide other services to the Commission. McNees Wallace & Nurick LLC, Disclosure Counsel in this transaction, is engaged from time to time to provide certain other services to the Commission.

Buchanan Ingersoll & Rooney PC, Co-Bond Counsel in this transaction, is engaged from time to time to provide certain other services to the Commission.

J.P. Morgan Securities LLC (“**JPMS**”) is serving as one of the underwriters to the Commission on the 2018 Bonds. JPMorgan Chase Bank, National Association is acting as a counterparty under certain interest rate swap agreements with the Commission. In addition it is also acting as credit provider. J.P. Morgan Securities LLC is an affiliate of JPMorgan Chase Bank, National Association.

UNDERWRITING

Jefferies LLC, on behalf of itself and the other Underwriters shown on the cover page hereof (the “*Underwriters*”), are expected to enter into one or more purchase contracts (the “*Purchase Contracts*”) with the Commission pursuant to which the Underwriters will agree, subject to certain customary conditions precedent to closing, to: (i) purchase the 2018A Bonds from the Commission at a purchase price equal to \$268,285,323.99 (representing the par amount of the 2018A Bonds less an Underwriters’ discount of \$900,264.86 and plus original issue premium of \$37,800,588.85); and (ii) purchase the 2018B Bonds from the Commission at a purchase price equal to \$237,336,947.78 (representing the par amount of the 2018B Bonds less an Underwriters’ discount of \$819,131.42 and plus original issue premium of \$27,676,079.20);

Pursuant to the Purchase Contracts, the Underwriters will be obligated to purchase all of the 2018A Bonds and 2018B Bonds if any of such 2018A and 2018B Bonds are purchased. The 2018 Bonds may be offered and sold to certain dealers (including the Underwriters and other dealers depositing such 2018 Bonds into investment trusts) at prices lower than such public offering prices (and such public offering prices may be changed, from time to time, by the Underwriters) only after a public offering of the 2018 Bonds at the initial offering price. The Commission has agreed to be liable to the Underwriters to the extent of all losses, claims, damages and liabilities arising out of incorrect statements or information contained in this Official Statement or material omissions therein, except for information furnished by the Underwriters, and with respect to certain other matters.

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

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

Jefferies one of the underwriters of the 2018 Bonds, has entered into an agreement (the “*Jefferies Agreement*”) with E*TRADE Securities LLC (“*E*TRADE*”) for the retail distribution of municipal securities. Pursuant to the Jefferies Agreement, Jefferies will sell 2018 Bonds to E*TRADE and will share a portion of its selling concession compensation with E*TRADE.

JPMS, one of the underwriters of the 2018 Bonds, has entered into negotiated dealer agreements (each, a “*Dealer Agreement*”) with each of [Charles Schwab & Co., Inc.] (“*CS&Co.*”) and [LPL Financial LLC] (“*LPL*”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase 2018 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any 2018 Bonds that such firm sells.

RATINGS

Moody’s Investors Service, Inc. (“*Moody’s*”), Fitch Ratings Services (“*Fitch*”), and Kroll Bond Rating Agency, Inc. (“*Kroll*”) have assigned their municipal bond ratings of “Aa3” (stable outlook), “AA” (stable outlook), and “AA” (stable outlook) respectively, to the 2018A Bonds.

Moody’s, Fitch and Kroll have assigned their municipal bond ratings of “A2” (stable outlook), “A+” (stable outlook), and “AA-” (stable outlook), respectively, to the 2018B Bonds.

An explanation of the significance of each of such ratings and any outlook may be obtained from the rating agency furnishing the same at the following addresses: Moody’s Investors Service, Inc., 7 World Trade Center at 250 Greenwich Street,

New York, New York 10007; Fitch Ratings Services, 33 Whitehall Street, New York, New York 10004; and Kroll Bond Rating Agency, Inc., 845 Third Avenue, New York, NY 10022. Certain materials and information not included in this Official Statement may have been furnished to such rating agencies. A rating is not a recommendation to buy, sell or hold securities. There is no assurance that such ratings will continue for any given period of time or that they may not be lowered or withdrawn entirely by the rating agencies, or either of them, if, in their or its judgment, circumstances so warrant. Any such downward change in or withdrawal of such ratings, or any of them, may have an adverse effect on the market price of the 2018 Bonds.

Except as provided in the Disclosure Undertaking, neither the Underwriters nor the Commission have undertaken any responsibility to bring to the attention of the holders of the 2018 Bonds any proposed or actual change in or withdrawal of any rating and neither the Underwriters nor the Commission have undertaken any responsibility to oppose any proposed change or withdrawal. See “CONTINUING DISCLOSURE” above.

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 2018 Bonds, or in any way contesting or affecting the validity of the 2018 Bonds or any proceedings of the Commission taken with respect to the offer or sale thereof, or, except as described below, the pledge or application of any moneys or security provided for the payment of the 2018 Bonds, including Oil Franchise Taxes or the collection thereof, 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. Note, however, it is unlikely these protections afforded to the Commission will apply in the Lawsuit (as defined below) to prevent or limit the availability of remedies for the Trucking Plaintiffs (as defined below).

On March 15, 2018, several individuals, entities and associations involved in or related to the commercial trucking industry (the “*Trucking Plaintiffs*”) filed a class action lawsuit against the Commission, several individuals in their individual capacity and in their official capacity related to the Commission, an individual in her individual capacity and in her official capacity as Chair of the Commission and as Secretary of Transportation, and Governor Wolf, in both his individual and official capacity. The litigation is captioned Owner Operator Independent Drivers Association, Inc. et al. v. Pennsylvania Turnpike Commission et al., No. 1:18-cv-00608-SHR (United States District Court for the Middle District of Pennsylvania) (the “*Lawsuit*”). The Trucking Plaintiffs allege that Act 44 of 2007, as amended by Act 89 of 2013 (hereinafter, “*Act 44/89*”), violates the Commerce Clause and the right to travel under the U.S. Constitution, either facially or as applied.

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

The Lawsuit does not directly challenge the validity of the Act of August 5, 1991, P.L. 238, No. 26 (“*Act 26*”) or the Act of April 17, 1997, No. 3 (“*Act 3*”), the 2018 Bonds, the Indenture, the Oil Franchise Tax, the Tax Revenues, the Commission Allocation, the Issuer Subsidy or any other monies or sources of security for the payment of the 2018 Bonds under the Trust Estate. Essentially, the Trucking Plaintiffs allege that the Commission improperly imposes Turnpike tolls beyond that which is necessary for the operation and maintenance of the Turnpike and improperly expends toll revenues for purposes other than the operation and maintenance of the Turnpike. The Lawsuit seeks, among other things, the following injunctive remedies: (1) a preliminary injunction (a) requiring the Commission to segregate all toll receipts in excess of what may be required for the current operation and maintenance of the Pennsylvania Turnpike System or for the funding of Commission senior revenue bonds issued under the Amended and Restated Trust Indenture dated as of March 1, 2001, as amended and supplemented, between the Commission and U. S. Bank, National Association, as trustee, and prohibiting the Commission from expending those toll receipts pending ruling on this action, and (b) prohibiting the Commission from authorizing the issuance of any further subordinate revenue bonds under the Subordinate Trust Indenture dated as of April 1, 2008, as amended and supplemented, between the Commission and Wells Fargo Bank, N.A., Philadelphia, Pennsylvania, as trustee, or the incurring of any additional debt for the purpose of making any additional Act 44/89 payments to the Pennsylvania Department of Transportation; (2) a permanent injunction enjoining the Commission from issuing any further bonds or incurring any additional debt for the purpose of making Act 44/89 payments; and (3) a permanent injunction prohibiting the Commission from using toll revenues to make payments on outstanding bonds issued to meet Act 44/89 obligations. Moreover, the Lawsuit seeks certain monetary damages including a refund of a portion of certain tolls. See APPENDIX A – “THE PENNSYLVANIA TURNPIKE COMMISSION – THE COMMISSION – Recent Development

and Pending Litigation - Commission Litigation” for a description of the issuance of Commission senior revenue bonds and subordinate revenue bonds for the purposes described therein. In the event of a judgment for monetary damages for refund of past tolls against the Commission in federal court in the Lawsuit, various monies or other sources of security of the Commission, including, but not limited to, the monies or sources of security for the payment of the 2018 Bonds under the Trust Estate could potentially be subject to execution of a judgment in favor of the Trucking Plaintiffs, although the likelihood of any such damages being imposed and having a material adverse effect on the Trust Estate is remote.

The Commission along with all of the Commonwealth defendants are evaluating the Lawsuit and the response to their claims. The Commission and the Commonwealth expect to vigorously defend Act 44/89 and the propriety of its use of the Turnpike toll revenues in court.

LEGAL MATTERS

Certain legal matters with respect to the 2018 Bonds will be passed upon by Zarwin Baum DeVito Kaplan Schaer Toddy P.C., Philadelphia, Pennsylvania and Buchanan Ingersoll & Rooney PC, Pittsburgh, Pennsylvania, Co-Bond Counsel. A copy of the proposed form of opinion of Co-Bond Counsel which will be delivered on the dates of issuance and delivery of the 2018 Bonds is set forth in APPENDIX D – “FORM OF OPINION OF CO-BOND COUNSEL.” Certain other legal matters will be passed upon for the Underwriters by Duane Morris LLP, Philadelphia, Pennsylvania and Ahmad Zaffarese LLC, Philadelphia, Pennsylvania, Co-Underwriters Counsel, and for the Commission by its Chief Counsel, Doreen A. McCall, Esquire, and McNees Wallace & Nurick, Disclosure Counsel.

The various legal opinions to be delivered concurrently with the delivery of the 2018 Bonds express the professional judgment of the attorneys rendering the opinion as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or the future performance of the parties to the transaction. In addition, the rendering of an opinion does not guarantee the outcome of any legal dispute that may arise out of the transaction.

FINANCIAL ADVISORS

The Commission has retained PFM Financial Advisors LLC, Philadelphia, Pennsylvania, and G-Entry Principle, P.C., Philadelphia, Pennsylvania, as Co-Financial Advisors with respect to the authorization and issuance of the 2018 Bonds. The Co-Financial Advisors are not obligated to undertake or assume responsibility for, nor have they undertaken or assumed responsibility for, an independent verification of the accuracy, completeness or fairness of the information contained in this Official Statement. Each of the Co-Financial Advisors is an independent advisory firm and is not engaged in the business of underwriting, trading, or distributing municipal securities or other public securities.

TRUSTEE AND PAYING AGENT

The Commission has appointed U.S. Bank National Association, Philadelphia, Pennsylvania, as the successor Trustee and Manufacturers and Traders Trust Company, as Paying Agent under the Indenture. The obligations and duties of the Trustee are as described in the Indenture. The Trustee has not evaluated the risks, benefits or propriety of any investment in the 2018 Bonds, and makes no representation, and has reached no conclusions, regarding the validity of the 2018 Bonds, the security therefor, the adequacy of the provisions for payment thereof or the tax status of the interest on the 2018 Bonds. The Trustee has relied upon the opinion of Co-Bond Counsel for the validity of the 2018 Bonds and tax status of the interest on the 2018 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 2018 Bonds authenticated or delivered pursuant to the Indenture or for the use or application of the proceeds of such 2018 Bonds by the Commission.

Under the terms of the Indenture, the Trustee shall not be responsible for any loss or damage resulting from any action or inaction taken in good faith in reliance upon an opinion of counsel and the Trustee is liable only for those damages caused by its gross negligence or willful misconduct. Under the Indenture, the Trustee is not required to take notice, and is not deemed to have notice, of any default under the Indenture, unless the Trustee has been specifically notified in writing of such default by the owners of at least 10% in aggregate principal amount of the Outstanding 2018 Bonds affected by such default. All notices or other instruments required by the Indenture to be delivered to the Trustee must be delivered at the designated office of the Trustee. The

summary of the Trustee's rights, duties, obligations and immunities is not intended to be a complete summary and reference must be made to the Indenture for a complete statement of the Trustee's rights, duties, obligations and immunities.

TAX MATTERS

Federal Tax Exemption

Co-Bond Counsel is expected to issue its opinion at closing, substantially in the form attached hereto as Appendix D, to the effect that, under existing law, interest on the 2018 Bonds (a) are excluded from gross income for federal income tax purposes and (b) are not items of tax preference within the meaning of Section 57 of the Internal Revenue Code of 1986, as amended (the "*Code*"), for purposes of the alternative minimum tax imposed by Section 55 of the Code on individuals. The corporate alternative minimum tax was repealed by legislation enacted on December 22, 2017 (known as the "*Tax Cuts and Jobs Act*"), effective for tax years beginning after December 31, 2017. For tax years beginning on or before December 31, 2017, interest on the 2018 Bonds is not an item of tax preference for purposes of the corporate alternate minimum tax in effect prior to enactment of the Tax Cuts and Jobs Act; however, interest on 2018 Bonds held by a corporation (other than an S Corporation, regulated investment company, or real estate investment trust) indirectly may be subject to federal alternative minimum tax because of its inclusion in the adjusted current earnings of a corporate holder. The opinion set forth in clause (a) in the first sentence of this paragraph is subject to the condition that the Commission complies with all the requirements of the Code that must be satisfied subsequent to the issuance of the 2018 Bonds in order that interest on the 2018 Bonds be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the 2018 Bonds to be included in gross income retroactively to the date of issuance of the 2018 Bonds. The Commission has covenanted to comply with all such requirements.

Tax Treatment of Premium

All maturities of the 2018 Bonds (the "*Premium Bonds*") are being offered and sold to the public at a price in excess of the principal amount thereof. Under the Code, the difference between the principal amount of a Premium Bond and the cost basis of such Premium Bond to an owner thereof is "bond premium." Under the Code, bond premium is amortized over the term of a Premium Bond (i.e., from the issue date to the maturity date of a Premium Bond or its earlier call date) for federal income tax purposes. An owner of a Premium Bond is required to decrease his or her basis in such Premium Bond by the amount of the amortizable bond premium attributable to each taxable year (or portion thereof) he or she owns such Premium Bond. The amount of the amortizable bond premium attributable to each taxable year is determined on an accrual basis at a constant interest rate determined with respect to the yield on a Premium Bond compounded on each interest payment date. The amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes.

Owners of Premium Bonds (or book entry interests) (including purchasers of Premium Bonds (or book entry interest) in the secondary market) should consult their own tax advisors with respect to the precise determination for federal income tax purposes of the treatment of bond premium upon sale, redemption or other disposition of Premium Bonds (or book entry interests) and with respect to the state and local consequences of owning and disposing of Premium Bonds (or book entry interests).

Other Federal Tax Consequences

Ownership of the 2018 Bonds may give rise to collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the 2018 Bonds. Co-Bond Counsel expresses no opinion as to any such collateral federal income tax consequences. Purchasers of 2018 Bonds should consult their own tax advisors as to such collateral federal income tax consequences.

Pennsylvania Tax Exemption

The opinion of Co-Bond Counsel will also state that, under existing law, the 2018 Bonds are exempt from personal property taxes in Pennsylvania and interest on the 2018 Bonds is exempt from Pennsylvania personal income tax and corporate net income tax.

MISCELLANEOUS

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

The references herein to the Enabling Acts, the 2018 Bonds, the Indenture and the Disclosure Undertaking are brief summaries of certain provisions thereof. Such summaries do not purport to be complete and, accordingly, are qualified by reference to and are subject to the full texts thereof.

Neither this Official Statement nor any other disclosure in connection with the 2018 Bonds is to be construed as a contract with the holders of the 2018 Bonds. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not expressly so identified, are intended merely as such and not as representations of fact.

PENNSYLVANIA TURNPIKE COMMISSION

By: /s/ Nikolaus H. Grieshaber
Chief Financial Officer

[Signature page]

APPENDIX A

THE PENNSYLVANIA TURNPIKE COMMISSION

TABLE OF CONTENTS

| | |
|---|----|
| THE COMMISSION | 1 |
| General | 1 |
| Executive Personnel..... | 3 |
| Enabling Acts..... | 4 |
| Recent Developments and Pending Legislation | 11 |
| THE TURNPIKE SYSTEM | 15 |
| General..... | 15 |
| Interchanges and Service Plazas | 16 |
| Additional Services..... | 17 |
| E-ZPass Lanes..... | 18 |
| E-ZPass Plus | 20 |
| E-ZPass Only | 20 |
| Cashless Tolling..... | 20 |
| CAPITAL IMPROVEMENTS | 21 |
| Act 61 Projects..... | 21 |
| System Maintenance and Inspection..... | 21 |
| Ten-Year Capital Plan..... | 23 |
| Mon/Fayette Expressway and Southern Beltway | 25 |
| I-95 Interchange | 26 |
| CERTAIN FINANCIAL INFORMATION | 27 |
| Revenue Sources of the Commission | 27 |
| Direct Purchase Obligations | 29 |
| Toll Schedule and Rates..... | 31 |
| Five-Year Financial History | 34 |
| Budget Process..... | 37 |
| Performance Audit by the Auditor General | 37 |
| Financial Policies and Guidelines..... | 38 |
| Future Financing Considerations | 42 |
| CERTAIN OTHER INFORMATION | 44 |
| Insurance | 44 |
| Personnel and Labor Relations | 44 |
| Retirement Plan..... | 45 |
| Other Post-Employment Benefit Liabilities..... | 48 |
| Commission Compliance Department | 50 |

EXHIBIT I - Pennsylvania Turnpike Commission Fiscal Year 2018 Ten-Year Capital Plan

APPENDIX A^{1,2}

THE PENNSYLVANIA TURNPIKE COMMISSION

NOTE: This Appendix A contains general information about the Commission, the System (defined herein) and the Commission's obligations under Act 44 (defined herein) and Act 89 (defined herein). Certain financial information, including information about revenue derived from Tolls and a discussion of Registration Fee Revenues (as such terms are defined herein) is also provided. POTENTIAL INVESTORS IN THE 2018 BONDS ARE ADVISED THAT THIS INFORMATION IS PROVIDED AS BACKGROUND ONLY. THE 2018 BONDS ARE NOT PAYABLE FROM TOLLS OR REGISTRATION FEE REVENUES. THE 2018 BONDS ARE LIMITED OBLIGATIONS OF THE COMMISSION PAYABLE SOLELY FROM THE TRUST ESTATE.

THE COMMISSION

General

The Commission is an instrumentality of the Commonwealth existing pursuant to an Act of the General Assembly of Pennsylvania approved on July 18, 2007, P. L. 169, No. 44 ("**Act 44**") and various Acts of the General Assembly approved on several dates, including the Act of May 21, 1937, P.L. 774, 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; the Act of September 30, 1985, P.L. 240, No. 61 ("**Act 61**") to the extent not repealed by Act 44; the Act of August 5, 1991, P.L. 238, No. 26 ("**Act 26**") and the Act of November 25, 2013, P.L. 974, No. 89 ("**Act 89**") (collectively, the "**Enabling Acts**"). The Act of April 17, 1997, No. 3 ("**Act 3**") revises certain of the provisions of Act 26 which contains the appropriation of the Commission Allocation of the Oil Franchise Tax. See "OIL FRANCHISE TAX – Act 3" in the forepart of this Official Statement for further discussion on Act 3.

Pursuant to the Enabling Acts, the Commission has the power to construct, operate and maintain the Pennsylvania Turnpike System (as further described herein, the "**System**" or the "**Turnpike System**"). The Commission's composition, powers, duties, functions, duration and all other attributes are derived from the Enabling Acts. The Enabling Acts may be modified, suspended, extended or terminated at any time by further legislation.

The Commission is composed of five members, including one ex officio member, the Secretary of the Department of Transportation of the Commonwealth of Pennsylvania ("**PennDOT**"). Any vacancy in the membership of the Commission (other than the Secretary of Transportation) must be filled by appointment of the Governor, with the advice and consent of two-thirds of the members of the Pennsylvania Senate. Act 89 enacted additional provisions

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

² Included in this Appendix A are links to certain additional materials. Unless otherwise noted herein, this Appendix A includes by reference the information contained in the linked materials, but only as such information appears on the linked websites as of the date of this Official Statement. The inclusion of these links is not intended to be a republication herein of any information contained on such websites.

pertaining to membership of the Commission. The term of confirmed members of the Commission (other than the Secretary of Transportation) is a period of four years and members may serve a maximum of two terms. Upon the expiration of a term, a member may continue to hold the office of Commissioner for a period of 90 days or until their successor is appointed and qualified, whichever is less. The limitations on Commissioner terms under Act 89 do not apply to members of the Commission originally confirmed prior to Act 89's effective date.

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

Leslie S. Richards, Chair was nominated by Governor Tom Wolf as Acting Secretary of Transportation of the Commonwealth of Pennsylvania in January 2015 and was confirmed as Secretary of Transportation by the Senate on May 11, 2015. Secretary Richards is a graduate of Brown University, where she concentrated in economics and urban studies. She received a master's of regional planning from the University of Pennsylvania. In the private sector, Ms. Richards served as a senior project manager at a woman-owned civil engineering firm and served as a public involvement specialist at a consulting firm. She is experienced with managing multi-million-dollar infrastructure projects and writing annual and long-range strategic plans. In the public sector, Secretary Richards focused on transportation and planning issues. She served as the vice chair of the Montgomery County Board of Commissioners; served as chair of the Delaware Valley Regional Planning Commission; as well as served on the boards of the Southeastern Pennsylvania Transportation Authority (SEPTA) and the Greater Valley Forge Transportation Management Association (GVFTMA). Before being elected county commissioner, she served as the chair and vice chair of the Whitemarsh Township Board of Supervisors.

William K. Lieberman is the current Vice Chair of the Commission, and he was appointed to serve as a Commissioner in July 2010. Mr. Lieberman previously served as Chair of the Commission from January 2011 until January 2015. Mr. Lieberman has been President of The Lieberman Companies, an insurance and pension provider, since 2003. He serves on the board of AMPCO Pittsburgh. A graduate of The Pennsylvania State University, he is a University of Pittsburgh Trustee and former Chair of the Manchester-Bidwell Corp., Pittsburgh, Pennsylvania. He was reappointed to serve as a Commissioner in January 2015. Mr. Lieberman received a unanimous recommendation for confirmation by the Senate Transportation Committee in April 2015 and was confirmed in May 2015 by the Senate. His term expires in May 2019.

Barry Drew, Secretary/Treasurer, was nominated in September 2015 by Governor Tom Wolf and confirmed by the State Senate in December 2015 to serve as a Commissioner. Mr. Drew previously served as the Deputy Secretary of Administration at the Pennsylvania Department of Revenue from 1995 until 2011. Prior to that, he was Solicitor for the City of Erie, Pennsylvania, then Director of Administration for the County of Erie. Mr. Drew is a Vietnam War veteran who served as a Sergeant in the United States Air Force. He holds a Bachelor of Science in Accounting from Gannon University and a Juris Doctor from the Western New England College School of Law. His term expires in December 2019.

Pasquale T. Deon, Sr., an established businessman and lifelong resident of Bucks County, Pennsylvania has served as a member of the Commission since 2002. Commissioner Deon was reappointed to the Commission in December 2013. Mr. Deon is Chair of the Board of Directors of the Southeastern Pennsylvania Transportation Authority (SEPTA). He is also a service-industry entrepreneur involved in real-estate development, beverage distribution and construction services. He is the owner of WBCB-1490AM Radio, Levittown, Pennsylvania. His term expired in December 2017, however, under the provisions of Act 89, he continues to serve as a Commissioner. Commissioner Deon was re-nominated to serve as a Commissioner by Governor Wolf and his re-nomination has been referred to the Pennsylvania Senate for confirmation as of April 16, 2018.

John N. Wozniak was nominated by Governor Tom Wolf on March 30, 2017 and confirmed by the State Senate on July 8, 2017 to serve as a Commissioner. Mr. Wozniak served as a Pennsylvania State Senator from the 35th District from 1997 to 2016. Prior to that, he served as a member of the Pennsylvania House of Representatives from the 71st District from 1981 to 1996. Mr. Wozniak graduated from the University of Pittsburgh at Johnstown in 1978 with a B.A. in Economics. His term expires in July 2021.

Executive Personnel

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

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

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

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

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

Ray A. Morrow was named the Chief Compliance Officer in July 2014. Prior to being named the Chief Compliance Officer, Mr. Morrow served the Commission as its Acting Chief Compliance Officer and Inspector General. Mr. Morrow joined the Commission in January 2014. Prior to joining the Commission, Mr. Morrow had an extensive career with the Federal Bureau of Investigation (FBI) first from 1977 to 1978. From 1978 to 1980, Mr. Morrow served with the U.S. Secret Service Uniformed Division assigned to the White House and the Presidential Protective Detail. From 1980 to 1987, Mr. Morrow served as an Executive Protection Specialist for Allegheny International (“AI”), a Fortune 500 company, assigned to protect the President of AI. Then, from 1987 to 2007, Mr. Morrow once again joined the FBI as a Special Agent culminating his career as the Special Agent in Charge of the FBI’s Pittsburgh Field Office. Mr. Morrow served as a Senior Compliance Investigator for the Siemens Corporation from 2010-2013.

Enabling Acts

Act 26 and Act 3

For a discussion of Act 26, Act 3 and other legislative authority relating to the portion of the Oil Franchise Tax allocated by law to the Commission, see “OIL FRANCHISE TAX” in the forepart of this Official Statement.

Act 44 and the Act 44 Funding Agreement

On July 18, 2007, Act 44 was enacted, creating a “public-public partnership” between the Commission and PennDOT to provide funding for roads, bridges and transit throughout the Commonwealth. Subsequently, in order to, among other things, effectuate the provisions of Act 44 requiring the Commission to make substantial annual payments to PennDOT as described below, the Commission and PennDOT entered into a Lease and Funding Agreement (the “**Act 44 Funding Agreement**”), incorporating many of the terms of Act 44.

The Act 44 Funding Agreement also granted the Commission the option to lease the portion of Interstate I-80 (“**I-80**”) located in the Commonwealth from PennDOT upon, among other things, the approval of the Federal Highway Administration (“**FHWA**”) of the conversion of such portion into a toll road (the “**Conversion**”). The Conversion was not approved by FHWA and neither the Commission nor PennDOT appealed the decision. The Commission did not exercise its option to lease such portion of I-80, and the period during which the Commission could exercise its option under the Act 44 Funding Agreement lapsed on October 14, 2010 without the Commission effectuating Conversion or having the ability to do so in the future. Under existing law, including Act 89, all legal, financial and operational responsibility for I-80 remains with PennDOT.

Pursuant to Act 44 and the Act 44 Funding Agreement, because the Conversion did not occur, the Commission was obligated to make scheduled annual payments, payable in equal

quarterly installments, of \$450 million to PennDOT through 2057 with \$200 million of the scheduled annual payment supporting road and bridge projects and \$250 million supporting transit projects throughout the Commonwealth. But see “*Act 89 and Act 89 Amendment*” below as to subsequent changes to such annual payments.

Act 89 and the Act 89 Amendment

On November 25, 2013, Act 89 was enacted to provide substantial additional and sustained investment in the Commonwealth’s aging transportation infrastructure. Once fully implemented by Fiscal Year 2018, the revenue enhancements enacted in Act 89 are projected to generate substantial additional funds each year for investment in the Commonwealth’s transportation infrastructure.

Act 89 also enacted substantial revisions to the Commission’s transportation funding obligations under Act 44 and authorized the Commission and PennDOT to immediately amend the Act 44 Funding Agreement to reflect the statutory provisions of Act 89. On April 4, 2014 the Commission and PennDOT executed Amendment Number One to Lease and Funding Agreement (the “*Act 89 Amendment*” and together with the Act 44 Funding Agreement, the “*Amended Funding Agreement*”). The Amended Funding Agreement terminates on October 14, 2057.

In accordance with Act 89 and the Amended Funding Agreement, the Commission’s aggregate annual payment to PennDOT for Fiscal Year 2013-2014 through Fiscal Year 2021-2022 is \$450 million and, in accordance with Act 89, the Commission must pay at least \$30 million of such amount from current revenues. Commencing in Fiscal Year 2022-2023 through the term of the Amended Funding Agreement, the Commission’s aggregate annual payment to PennDOT is \$50 million, which amount shall be paid from then current revenues of the Commission. Act 89 relieves the Commission from over \$15 billion in future transfers to PennDOT during Fiscal Years 2023 through 2057. Further, Act 89 revises the use of the Commission’s scheduled annual payments. Effective on July 1, 2014, none of the Commission’s scheduled annual payments may be used to support Commonwealth road and bridge projects. Instead, \$420 million of the scheduled annual payment may be used to support mass transit capital and operating needs and other transportation programs of statewide significance, and \$30 million shall be used to support multi-modal projects, which may include: aviation projects; rail freight projects; port projects; bicycle projects and pedestrian projects. The Commission’s \$50 million scheduled annual payment, which commences in Fiscal Year 2022-2023, will support mass transit capital and operating needs. The table under “*Act 44 Payments to PennDOT for Roads, Bridges and Transit*” below indicates the amounts that have been paid to date by the Commission. The Commission’s obligation to pay the annual debt service on any Special Revenue Bonds (hereinafter defined) on a timely basis continues to be part of its payment obligation under the Amended Funding Agreement.

The Enabling Acts provide that if the Secretary of the Budget notifies the Commission of a failure to make a payment to PennDOT under the Amended Funding Agreement, all actions of the Commission taken by a vote of the Commissioners thereafter must be approved by a unanimous vote of all Commissioners until such time as the payment is made. However, a unanimous vote is not required if it would prevent the Commission from complying with covenants with “current bondholders, debt holders or creditors.” The Amended Funding Agreement does not refer to “current bondholders, debt holders or creditors,” but provides that a unanimous vote is not required

if it would prevent the Commission from complying with covenants with “bondholders, debt holders or creditors having such status as of the Effective Date,” which under the Amended Funding Agreement is defined as October 14, 2007. These voting procedures have not become effective as the Commission has not missed any payments under the Amended Funding Agreement.

The Commission is required by the terms of the Amended Funding Agreement and Act 44 to fix and adjust tolls at levels that will generate revenues (together with other available moneys) sufficient to pay, among other things, amounts to PennDOT pursuant to the Amended Funding Agreement when due and other obligations of the Commission, and the Commission has covenanted in the Subordinate Revenue Indenture (hereinafter defined) to set tolls at a level sufficient to meet its coverage obligations taking into account any additional debt incurred in order to make such payments. The Commission believes that System revenues should enable it to satisfy its reduced payment obligations as set forth in the Amended Funding Agreement.

Act 44 Payments to PennDOT for Roads, Bridges and Transit

The Enabling Acts provide that all required payments under the Amended Funding Agreement or as required by the Enabling Acts shall be subordinate obligations of the Commission payable solely from the General Reserve Fund after meeting all other Commission requirements pursuant to any financial documents, financial covenants, liquidity policies or agreements in effect at the Commission. Pursuant to Act 44 and the Act 44 Funding Agreement, the Commission’s payments to PennDOT over the seven fiscal years ended May 31, 2014 were allocated between deposits to the Commonwealth Motor License Fund (the “***Motor License Fund***”) for road and bridge work and deposits into the Public Transportation Trust Fund for distribution to Pennsylvania’s local and regional public transportation agencies for operating and capital purposes.

No portion of the payments of the Commission to be deposited into the Public Transportation Trust Fund may be made with proceeds of Special Revenue Bonds. In accordance with Act 89 and the Amended Funding Agreement, effective July 1, 2014, 100 percent of the scheduled annual payments of the Commission to PennDOT is being deposited into the Public Transportation Trust Fund and may be used to support transit operating and capital costs, multi-modal transportation capital project costs and alternative energy transportation capital project costs.

As of the date of this Official Statement, the Commission has paid a total amount of \$6,100,000,000 under the Amended Funding Agreement, as set forth in the following table (dollar amounts in millions).

| Fiscal Year Ended May 31 | Payments to Motor License Fund | Payments to Public Transportation Trust Fund | Total |
|-----------------------------|--------------------------------------|---|---------|
| 2008 | \$450.0 | \$300.0 | \$750.0 |
| 2009 | 500.0 | 350.0 | 850.0 |
| 2010 | 500.0 | 400.0 | 900.0 |
| 2011 | 200.0 | 250.0 | 450.0 |
| 2012 | 200.0 | 250.0 | 450.0 |
| 2013 | 200.0 | 250.0 | 450.0 |
| 2014 | 200.0 | 250.0 | 450.0 |
| 2015 | 0.0 | 450.0 | 450.0 |
| 2016 | 0.0 | 450.0 | 450.0 |
| 2017 | 0.0 | 450.0 | 450.0 |
| 2018 | 0.0 | 450.0 | 450.0 |

Issuance of Bonds; Commission Payments

Under the Enabling Acts, 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 Amended Funding Agreement, if applicable, the costs of construction, reconstructing, widening, expanding or extending I-80 or any other costs of I-80 and the System, (ii) certain amounts to PennDOT pursuant to the Amended Funding Agreement for purposes of funding PennDOT highway, road and bridge construction and maintenance programs in the Commonwealth (provided that, commencing in Fiscal Year 2014-2015, all payments to PennDOT under the Amended Funding Agreement will be deposited into the Public Transportation Trust Fund), (iii) costs of improvements to the System, and (iv) certain amounts into a Public Transportation Trust Fund pursuant to the Amended Funding Agreement, to be used for mass transit programs, multi-modal transportation programs and, other transportation programs of statewide significance, alternative energy transportation programs (provided that, pursuant to the terms of the Amended Funding Agreement, the proceeds of any Special Revenue Bonds may not be applied for payments to mass transit programs, multi-modal transportation programs or alternative energy transportation programs).

The bonds authorized to be issued by the Commission under Act 44 include up to \$5 billion of Special Revenue Bonds, as described below. Proceeds of such bonds may be applied toward the satisfaction of the Commission’s scheduled annual payment obligations under the Amended Funding Agreement and the Enabling Acts, except for that portion of the annual payment obligations to be deposited in the Public Transportation Trust Fund pursuant to the terms of the Amended Funding Agreement. Since all of the Commission’s payments to PennDOT under the Amended Funding Agreement are being deposited into the Public Transportation Trust Fund

commencing July 1, 2014, as of such date, the Commission is no longer issuing Special Revenue Bonds to fund its obligations under the Amended Funding Agreement. See “*Statutory Limitations on the Incurrence of Special Revenue Bonds*” below. The Amended Funding Agreement provides that the Commission is obligated to pay all debt service due with respect to the Special Revenue Bonds.

Pursuant to the terms of that certain Subordinate Trust Indenture dated as of April 1, 2008 between the Commission and Wells Fargo Bank, N.A. (the “*Subordinate Revenue Indenture Trustee*”), as amended and supplemented (the “*Subordinate Revenue Indenture*”), the Commission has covenanted to pay to the Subordinate Revenue Indenture Trustee, and it has instructed U.S. Bank National Association, as trustee (the “*Senior Revenue Indenture Trustee*”) under that certain 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 the Senior Revenue Indenture Trustee, as supplemented and amended (the “*Senior Revenue Indenture*”) to pay to the Subordinate Revenue Indenture Trustee, after payment of all required debt service on all Senior Revenue Indenture Obligations (defined below) and subject to the provisions of the Senior Revenue Indenture, out of the General Reserve Fund established under the Senior Revenue Indenture, such amounts as are required by the Subordinate Revenue Indenture, by a supplemental indenture to the Subordinate Revenue Indenture or by a parity swap agreement to pay, at the times specified, all amounts due in respect of the Subordinate Revenue Indenture Obligations (defined below) outstanding under the Subordinate Revenue Indenture or under a parity swap agreement.

Accordingly, the Commission is required to instruct and furnish a debt service schedule to the Senior Revenue Indenture Trustee providing (i) for the payment to the Subordinate Revenue Indenture Trustee out of available funds held in the General Reserve Fund of the amount from time to time necessary to satisfy all required deposits under the Subordinate Revenue Indenture to the Commission Payments Fund established under the Subordinate Revenue Indenture and (ii) for the payment of debt service on the outstanding Subordinate Revenue Indenture Obligations and all other payments required from time to time under the Subordinate Revenue Indenture and in any supplemental indenture to the Subordinate Revenue Indenture (collectively, the “*Commission Payments*”).

Under the Subordinate Revenue Indenture, the Commission may, from time to time, issue additional bonds to satisfy its payment obligations under the Enabling Acts, including (a) bonds issued for the purpose of making payments to PennDOT to finance transit programs and other purposes pursuant to Act 44, as amended by Act 89, and which are not secured by payments from the Motor License Fund, but have a senior claim on Commission Payments (the “*Subordinate Revenue Bonds*”) and (b) Special Revenue Bonds (hereinafter defined). The Commission intends that any long-term indebtedness to be issued under the Subordinate Revenue Indenture is to be paid solely from Commission Payments. Such obligations, if issued, are subordinate to the Turnpike Revenue Bonds (hereinafter defined) issued under the Senior Revenue Indenture. Such Subordinate Revenue Bonds will be parity obligations with the outstanding Subordinate Revenue Bonds already issued under the Subordinate Revenue Indenture. As of the date of this Official Statement, there is \$5,156,644,139.95 aggregate principal amount of Subordinate Revenue Bonds outstanding under the Subordinate Revenue Indenture (including compounded amounts as of June 1, 2018 for outstanding capital appreciation bonds). The foregoing amount includes \$341,850,000 aggregate principal amount of floating rate notes (FRNs) which includes a direct purchase

obligation in the principal amount of \$291,850,000. See “CERTAIN FINANCIAL INFORMATION – Direct Purchase Obligations” for a summary of direct purchase obligations of the Commission. Other obligations incurred and outstanding under the Subordinate Indenture include the Commission’s obligations under various interest rate swap agreements having a total current notional amount of \$291,850,000. Special Revenue Bonds have a right to payment from Commission Payments that is subordinate to the rights of payment of the holders of Subordinate Revenue Bonds issued under the Subordinate Revenue Indenture.

Statutory Limitations on the Incurrence of Special Revenue Bonds

Under the Enabling Acts, the Commission is authorized to issue, by resolution, Special Revenue Bonds (as defined in § 9511.2 of Act 44, and as issued as such under the Subordinate Revenue Indenture, the “**Special Revenue Bonds**”) 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, planning, engineering, administrative and other expenses, and debt service. No more than \$600 million in aggregate principal amount of such Special Revenue Bonds, exclusive of original issue discount, may be issued in any calendar year. No such bonds may be issued unless the Amended Funding Agreement is in effect, and no such bonds may be outstanding beyond the stated term of the Amended Funding Agreement at the time of issuance. Special Revenue Refunding Bonds (as defined in § 9511.2 of Act 44) shall not be deemed to count against the total or annual maximum issuance volume under Act 44. Pursuant to Act 89, Special Revenue Bonds may not be issued by the Commission to fund any portion of its annual payment obligation commencing July 1, 2014, as all of such annual payment obligation is to be deposited in the Public Transportation Trust Fund after such date, although Special Revenue Refunding Bonds could be issued.

Special Revenue Bonds have been issued under the Subordinate Revenue Indenture. As of the date of this Official Statement, there is \$980,241,247.05 aggregate principal amount of Special Revenue Bonds outstanding under the Subordinate Revenue Indenture (including compounded amounts as of June 1, 2018 for capital appreciation bonds).

Should the Commission fail to timely make required debt service deposits for Special Revenue Bonds, the Subordinate Revenue Indenture Trustee shall proceed under the terms of Act 44 and a Memorandum of Agreement between PennDOT, the Office of the Budget of the Commonwealth and the Pennsylvania State Treasurer, dated July 16, 2010 (the “**MOA**”), to notify PennDOT of such default, and thereafter, PennDOT shall give notice to the Office of the Budget of the Commonwealth of such deficiency, the Office of the Budget of the Commonwealth shall request that the Treasurer of the Commonwealth transfer funds to the Subordinate Revenue Indenture Trustee in an amount necessary to cure such deficiency, and the Treasurer of the Commonwealth shall transfer such funds to the Subordinate Revenue Indenture Trustee but only from amounts available for such purpose in the Motor License Fund. The appropriation of money in the Commonwealth’s Motor License Fund in respect of Special Revenue Bonds issued by the Commission under Act 44 is continuing and non-lapsing. 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 Special Revenue Bonds. Pursuant to the MOA, certain funds equal to the

maximum annual debt service on outstanding Special Revenue Bonds are to be set aside (but not pledged) in the Motor License Fund for this purpose upon the issuance of Special Revenue Bonds. Funds in such amounts were set aside in the Motor License Fund in connection with the issuance of the Commission's Motor License Fund-Enhanced Turnpike Subordinate Special Revenue Bonds, Series A of 2010, Series B of 2010, Series A of 2011, Series B of 2011, Series A of 2012, Series B of 2012, Series A of 2013, Series B of 2013, Series A of 2014, First Series of 2016, First Series of 2017, Second Series of 2017 and Third Series of 2017. The Commission is obligated pursuant to the Amended Funding Agreement 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 Special Revenue Bonds. This reimbursement obligation is subject to and junior to the payment obligations of the Commission under the Special Revenue Bonds.

Rules Relating to Governance and Accountability Under the Enabling Acts

The Enabling Acts sets forth certain rules relating to governance and accountability of the Commission, including, but not limited to: requiring the Commission to file an annual financial plan with the Pennsylvania Secretary of the Budget no later than June 1 of each year; to have an audit of the Commission's finances (including a review of its performance, procedures, operating budget, capital budget and debt) conducted by the Auditor General every two years (such audit to be paid for by the Commission); to adopt a comprehensive code of conduct for Commissioners and executive-level employees, which the Commission adopted on October 31, 2007 and further expanded and strengthened on January 7, 2014 and January 28, 2015; and upon request, at least one Commission member shall testify annually before the appropriations committee of the Pennsylvania House of Representatives and the Senate of Pennsylvania.

On June 1, 2017, the Commission submitted its financial plan for Fiscal Year 2018 (the "**Financial Plan**"). The Financial Plan incorporates the Commission's adopted Ten-Year Capital Plan (the "**Capital Plan**"). The Financial Plan indicates that in Fiscal Year 2017 the Commission was able to meet all of its financial covenants and obligations under the Enabling Acts and was able to progress with its Capital Plan. Given the ongoing and moderate recovery of both the national and state economies, the Commission plans to continue the cost containment and efficiency measures it implemented within the past few years. These measures, together with future toll increases, are expected to allow the Commission to meet its financial covenants, obligations under the Enabling Acts, and capital needs during Fiscal Year 2018.

The Financial Plan for Fiscal Year 2018 includes modestly higher estimated toll revenue and traffic, based on CDM Smith's 2017 Bring Down Letter, than what was included in the prior year's financial plan. Fiscal Year 2018 operating expenses are projected to increase by 5.7% (\$21.7 million) to \$399.6 million. From Fiscal Year 2019 onward, the financial plan assumes the Commission will work to achieve the PTC's financial planning goal of 4% annual growth in operating expenses. Where possible, the Commission is actively managing its operations to limit the rate of growth in those operating costs directly under its control. However, significant portions of the Commission's operating budget are beyond its ability to control. These external cost drivers include the Commission's pension expense related to the State Employees Retirement System ("SERS") and the Commission's projected expense for the Pennsylvania State Police. With respect to specific operating expenses that are under the control of the Commission, such costs are

projected to increase 1.9% (\$5.7 million) in Fiscal Year 2018 while the Commission’s pension expense related to SERS is estimated to increase 33.3% (\$12.0 million) and the Commission’s projected expense for the Pennsylvania State Police is estimated to increase 8.9% (\$4.0 million). The Financial Plan also continues to include more conservative debt structuring assumptions, first included in the Fiscal Year 2017 Financial Plan, to reduce the Commission’s interest costs. These include assuming 30 year terms versus 40 year terms to amortize principal more quickly, eliminating the planned use of capital appreciation bonds and other deferred interest products in the future, and assuming future debt issuances based on level debt service assumptions rather than on escalating debt service. Finally, the Financial Plan for Fiscal Year 2018 maintains debt service coverage ratios for all toll revenue supported debt above policy level constraints.

The Financial Plan concludes that the Commission will continue to meet all of its indenture covenants and all of its other obligations through the Fiscal Year 2057. However, as a forward-looking report, the Financial Plan makes certain assumptions, including future toll increases, to reach its conclusion that the financial covenants, obligations under the Enabling Acts, and capital needs will be met beyond Fiscal Year 2017. Key among these assumptions is the Commission’s ability to raise all tolls throughout the System. The Financial Plan reflects the full year effects of the January 2017 toll increase and the partial year impacts of a January 2018 toll increase. The Financial Plan assumes the \$450 million reduced level of funding obligations required by the Enabling Acts through Fiscal Year 2022 and the \$50 million funding level from Fiscal 2023 through Fiscal Year 2057. No assurances can be made by the Commission with respect to the assumptions made or conclusions reached in the Financial Plan. A complete copy of the Financial Plan is available on the Commission’s website at https://www.paturnpike.com/pdfs/business/finance/PTC_Fiscal_2018_Act_44_Financial_Plan.pdf.³

See “THE COMMISSION – Enabling Acts” above.

See “CAPITAL IMPROVEMENTS – Ten-Year Capital Plan” for additional information on the Capital Plan.

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

Recent Developments and Pending Legislation

Act 88 of 2012 (formerly House Bill 3 and Senate Bill 344) (“*Act 88*”) was signed into law on July 5, 2012. Act 88 authorizes “public-private” transportation partnership arrangements in the Commonwealth. The law allows the Commission, among other public entities, to enter into public-private partnerships for the construction of transportation infrastructure and facilities and for the lease of such facilities through long-term agreements. Act 88 prohibits a lease of the Turnpike Mainline without the further express approval of the General Assembly. However, the law does not restrict the Commission from entering into public-private partnership agreements which do not involve granting substantial oversight and control over the Turnpike Mainline to another entity,

³ The information contained on such website link is not incorporated by reference in this Appendix A.

nor does it limit or preempt in any way the Commission's ability to enter into certain types of public-private partnership agreements currently allowed under its Enabling Acts. The Public Private Transportation Partnership Board, established pursuant to Act 88, has issued an Implementation Manual & Guidelines for Public-Private Transportation Partnerships.

Act 165 of 2016 (formerly House Bill 2025) ("*Act 165*") was signed into law on November 4, 2016. Act 165, among other things, allows for the suspension of vehicle registration for unpaid tolls. Specifically, the vehicle suspension process is triggered by the failure to pay six (6) or more violations or incurring unpaid tolls or administrative fees of \$500. Additionally, Act 165 assists the Commission with the collection of unpaid out-of-state tolls by authorizing PennDOT to enter into a reciprocity agreement for purposes of toll collection and enforcement penalties with another state or tolling entity.

Pennsylvania Legislative Proposals

From time to time, legislation is introduced in the Pennsylvania General Assembly (with respect to the Enabling Acts and otherwise) and in the United States Congress, the nature and content of which may affect the Commission. The Commission cannot predict whether any such legislation will be enacted into law, or how any such legislation may affect the Commission's ability to pay the Senior Revenue Indenture Obligations, the Subordinate Revenue Indenture Obligations, the Oil Franchise Tax Revenue Bonds or the Registration Fee Revenue Bonds, or to perform its financial obligations pursuant to the Enabling Acts.

The Pennsylvania House of Representatives and the Pennsylvania Senate convene for a two-year session on the first Tuesday after New Year's in odd numbered years and adjourn (Sine Die) on November 30 of the next even numbered year. The current 2017-18 legislative session began on January 3, 2017.

Legislation either in discussion or introduced in the General Assembly during the 2017-18 legislative session, that if enacted would materially affect the Commission, includes the following:

- Similar to legislation that was introduced but not enacted during the last legislative session, Senate Bill 171 which would require a majority vote of the Pennsylvania Senate to confirm the Chief Executive Officer of the Commission passed the Senate and was referred to the House Transportation committee.
- Similar to legislation that was introduced but not enacted during several prior legislative sessions, Senate Bill 39, which would abolish the Commission and shift all of the Commission's operations, maintenance, construction and reconstruction powers and duties to PennDOT and shift the issuance and payment of bonds to the State Treasurer's office, was introduced and referred to the Senate Transportation Committee.
- Senate Bill 249, which if enacted would waive tolls for emergency vehicles when either directly responding to an emergency situation or participating in the escort of a fallen firefighter, ambulance service or rescue squad member, law enforcement officer or

armed service member killed in the line of duty, was introduced and referred to the Senate Transportation committee on January 27, 2017.

- Similar to legislation that was introduced but not enacted during several prior legislative sessions, House Bill 1948 has been introduced which would reduce the Commission's Act 44 obligations commencing immediately, and gradually step down such obligations until completely eliminated after 2022. House Bill 1948 has been referred to the House Transportation committee on November 29, 2017.
- Senate Bill 966, which if enacted would grant disabled veterans a 50% discount in toll rates for use of the Pennsylvania Turnpike, was introduced and referred to the Senate Transportation committee on December 1, 2017.
- A Resolution has been introduced in the Pennsylvania Senate that if approved by the Senate, would direct the Joint State Government Commission to conduct an analysis of a potential consolidation of interstate operations at PennDOT and the Commission. The Joint State Government Commission is the primary non-partisan research organization that serves the Pennsylvania General Assembly. The Resolution was approved by the Senate Transportation Committee on October 25, 2017 and approved by the full Senate on January 24, 2018.

The Commission cannot predict what other legislation may be considered by the General Assembly during the 2017-2018 or future legislative sessions or if any other proposals or initiatives may lead to the adoption of legislation that may affect the Commission.

Commission Litigation

On March 15, 2018, several individuals, entities and associations involved in or related to the commercial trucking industry (the "Trucking Plaintiffs") filed a class action lawsuit against the Commission, several individuals in their individual capacity and in their official capacity related to the Commission, an individual in her individual capacity and in her official capacity as Chair of the Commission and as Secretary of Transportation, and Governor Wolf. The litigation is captioned Owner Operator Independent Drivers Association, Inc. et al. v. Pennsylvania Turnpike Commission et al., No. 1:18-cv-00608-SHR (United States District Court for the Middle District of Pennsylvania). The Trucking Plaintiffs allege that Act 44, as amended by Act 89 (hereinafter, "Act 44/89"), violates the Commerce Clause and the right to travel under the U.S. Constitution, either facially or as applied, because the Commission improperly imposes Turnpike tolls beyond that which is necessary for the operation and maintenance of the Turnpike and that the Commission expends toll revenues for purposes other than the operation and maintenance of the Turnpike.

The lawsuit seeks, among other things, the following injunctive remedies: (1) a preliminary injunction (a) requiring the Commission to segregate all toll receipts in excess of what may be required for the current operation and maintenance of the Pennsylvania Turnpike System or for the funding of Commission senior revenue bonds issued under the Amended and Restated Trust Indenture dated as of March 1, 2001, as amended and supplemented, between the Commission and U. S. Bank, National Association, as trustee, and prohibiting the Commission from expending those toll receipts pending ruling on this action, and (b) prohibiting the Commission from

authorizing the issuance of any further subordinate revenue bonds under the Subordinate Trust Indenture dated as of April 1, 2008, as amended and supplemented, between the Commission and Wells Fargo Bank, N.A., Philadelphia, Pennsylvania, as trustee, or the incurring of any additional debt for the purpose of making any additional Act 44/89 payments to the Pennsylvania Department of Transportation; (2) a permanent injunction enjoining the Commission from issuing any further bonds or incurring any additional debt for the purpose of making Act 44/89 payments; and (3) a permanent injunction prohibiting the Commission from using toll revenues to make payments on outstanding bonds issued to meet Act 44/89 obligations. Moreover, the lawsuit seeks certain monetary damages including a refund of a portion of certain tolls.

The Commission along with all of the Commonwealth parties are evaluating the Trucking Plaintiffs' lawsuit and the response to their claims. The Commission and the Commonwealth expect to vigorously defend Act 44/89 and the propriety of its use of the Turnpike toll revenues in court.

Status of Delaware River Bridge

On January 20, 2017, the Delaware River Bridge was closed following the discovery of a fracture in a steel truss. Phase I of the work to stabilize the bridge was completed on January 23, 2017 while structural engineers engaged in a more comprehensive assessment and structural analysis to determine a permanent repair strategy. After the completion of certain repairs and extensive examination and testing of the bridge over several weeks by the Commission, the New Jersey Turnpike Authority ("Authority") and the Federal Highway Administration and their respective experts and consultants, the bridge was fully reopened to traffic on March 9, 2017. Although further minor repairs will be performed on the bridge in the coming months, it is anticipated that the bridge will remain open while such future repairs are being made.

The bridge is jointly owned and maintained by the Commission and the Authority and all costs of operation, maintenance and repair of the bridge are shared equally by the Commission and the Authority. The Commission estimates that its 50% share of the costs of the repair, examination and testing of the bridge will be approximately \$7,500,000, which will be paid by the Commission from bond proceeds as part of its 10 Year Capital Plan. The Commission's Traffic and Revenue consultant has projected that the closure of the bridge resulted in the Commission incurring a loss of toll revenue on the Turnpike during the period between January 20, 2017 and March 9, 2017 of approximately \$12,100,000 (1.8 million transactions). The effect of the estimated lost revenues has been included, by the Commission's Traffic and Revenue Consultant, in the projections of the Commission's toll revenues and traffic volume for Fiscal Year 2017.

In connection with the foregoing, the Commission has concluded with its insurer that the costs associated with the bridge repairs along with lost revenues relating to the bridge closure, will be covered under its All Risk insurance policy (subject to applicable deductibles). The insurer accepted the Commission's claim on February 7, 2018. The Commission maintains a \$200 million (per occurrence) All Risk insurance policy including loss of business income coverage as further described under "CERTAIN OTHER INFORMATION - Insurance" below.

Additional Matters

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

THE TURNPIKE SYSTEM

General

The present Turnpike System is composed of:

- the 359-mile Turnpike Mainline traversing the southern portion of Pennsylvania from east to west;
- the 110-mile north/south section identified as the Northeast Extension;
- the approximately 16-mile north/south connection, known as the Beaver Valley Expressway, which intersects the Turnpike Mainline in the southwestern portion of the Commonwealth;
- the approximately 13-mile Amos K. Hutchinson Bypass which adjoins the Turnpike Mainline near the New Stanton Interchange;
- the completed portion of the Mon/Fayette Expressway project totaling approximately 48 miles; and
- a 6-mile section of the Southern Beltway project from PA 60 to US 22.

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

The Turnpike Mainline connects with the Ohio Turnpike at its western terminus and with the New Jersey Turnpike at its eastern terminus. The Turnpike Mainline commences on the eastern boundary of Pennsylvania at the Delaware River Bridge which connects the System to the New Jersey Turnpike. The Turnpike Mainline traverses the state in a westerly direction generally paralleling the southern border of the state immediately north of Philadelphia and south of

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

The System was constructed prior to the development of the National Interstate Highway System and no Federal Highway Trust Fund monies have been utilized in the construction of the Turnpike Mainline, Northeast Extension, Beaver Valley Expressway or Amos K. Hutchinson Bypass section of the Turnpike System. However, portions of the System have been designated as Interstate Routes. The Turnpike Mainline has been designated as Interstate Route 276 between the area where Interstate Route 95 crosses the System and the Valley Forge Interchange. The portion of the Turnpike Mainline west of the Valley Forge Interchange to the western terminus at the Ohio state line has been designated as Interstate Route 76. In addition, the Turnpike Mainline between the New Stanton and Breezewood Interchanges has been designated as Interstate Route 70. The Northeast Extension has been designated as Interstate Route 476. Portions of the Beaver Valley Expressway are designated as Interstate Route 376.

The System was constructed and opened to traffic in sections. The original Turnpike Mainline segment between Irwin and Carlisle was opened in 1940. Ten years later, in 1950, the 100-mile section between Carlisle and King of Prussia was completed and opened. After 1950, construction of new segments of the System occurred at more frequent intervals with the Turnpike Mainline segment placed 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 the temporary interchange to Scranton, was completed and opened for traffic in November 1957.

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

Interchanges and Service Plazas

The System has a total of 68 toll interchanges which connect it with major arteries and population centers along its 552 mile traffic corridor. Thirty-two of the interchanges are located on the Turnpike Mainline, including Turnpike Mainline barriers at the New Jersey and Ohio state lines, and 11 interchanges are situated on the Northeast Extension. The additional 25 interchanges are located on the Beaver Valley Expressway, Amos K. Hutchinson Bypass, and completed segments of the Mon/Fayette Expressway and Southern Beltway. In addition, the System also has four E-ZPass Only interchanges as discussed below under “E-ZPass Only”.

There are 17 service plazas along the System providing gasoline and diesel fuel, other automotive supplies and services, and restaurant services. The Commission has entered into long term service plaza redevelopment agreements with HMSHost Restaurants, LLC and Sunoco, Inc.⁴ to design, reconstruct, finance, operate and maintain all of the service plazas. The Commission has no responsibility for maintaining the service plazas under the agreements. Since the Commission entered into the agreements in 2005, all 17 rebuilt service plazas have opened. Cumulatively, HMSHost Restaurants, LLC and Sunoco, Inc. have invested approximately \$190 million in service

⁴ Pursuant to an Assignment and Assumption of Real Property Lease Agreement executed on January 23, 2018, Sunoco Retail LLC, as successor in interest to Sunoco, Inc. (R&M) (“Sunoco”), assigned its interest in the lease agreement by and between the Commission and Sunoco, as amended and supplemented, to 7-Eleven, Inc.

renovation projects, at no cost to the Commission. The Commission recorded income of approximately \$4.1 million and \$3.9 million under the service plaza agreements in Fiscal Years 2016-2017 and 2015-2016, respectively, which is based on volume rental payments plus a percentage of revenue generated.

Additional Services

In addition to 783 field personnel in 22 facilities available to keep the roadway open and safe in the event of unfavorable road conditions, the Commission has a 24/7 Traffic Operations Center which monitors conditions on the System and provides emergency dispatch.

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

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

In December 2011, the Pennsylvania Department of Environmental Protection announced a \$1 million grant award to help develop electric vehicle infrastructure on the System. The grant recipient, Car Charging Group Inc. (CCGI) was to install charging stations at 15 of the System's mainline service plazas (the Project). The Commission committed additional funding of up to \$500,000 to upgrade the electrical systems at the plazas to accommodate the charging stations. The first three phases of the work have been completed. Electric vehicle charging stations are currently installed and operational at the following service plazas: New Stanton, Oakmont, King of Prussia, Bowmansville and Peter J. Camiel. CCGI is unable to complete the Project. As a result, on April 19, 2017, DEP terminated the grant and revoked further funding under the grant. The Commission is in the process of attracting other vendors to complete the project, at which time the Commission will terminate its agreement with CCGI.

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

In September 2013, the Commonwealth Financing Authority announced a \$500,000 grant to Sunoco, Inc., a portion of which was used to partially fund a compressed natural gas refueling station located at the New Stanton service plaza, the first natural gas refueling station on the System. Construction was completed and the refueling station opened in November 2014.

In October 2016, the Commission authorized the award of contracts to legal firms and financial consultants to assist in exploring a broadband network public-private partnership (P3) project, including the designing, building, financing, operating and maintenance of a fiber network for Commission data communications and the marketing and leasing of excess network capacity to private users along the System. The new system would replace an existing digital microwave network. To date, the Commission has shortlisted potential P3 teams and a final Request For

Proposal is expected to be issued in June 2018 with an award and financial closure of the transaction anticipated in the fourth quarter of 2018.

E-ZPass Lanes

The Commission has installed E-ZPass, a form of electronic toll collection, throughout the System. Not only has E-ZPass enhanced safety and convenience for users of the System, but the technology has improved traffic flow and reduced congestion at the System's busiest interchanges, especially in southeastern Pennsylvania. The use of electronic tolling has enhanced the overall efficiency of the Commission's toll collections operations and has resulted in a reduction in the number of required full-time and part-time toll collectors. Express E-ZPass lanes have been constructed at seven interchanges and permit E-ZPass customers to travel through the toll plaza at highway speeds. In addition, E-ZPass customers traveling in 16 other states that have implemented E-ZPass technology are able to use E-ZPass in those states. Currently, E-ZPass is available on the entire System, including the western extensions. The Commission has not experienced any 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 are unreadable. VES enables the Commission to collect appropriate tolls and other additional fees relating to violations. Legislation passed in 2000 included enforcement provisions for E-ZPass, including, among other things, certain evidentiary presumptions with respect to whether the registered vehicle owner was the operator of the vehicle, procedures for notifying the vehicle owner of the violation charged and the imposition upon the vehicle owner of civil penalties for violations. Act 89 included enhanced fare evasion measures and criminal penalties pertaining to E-ZPass violators. Under Act 89, motorists who commit or attempt to commit fare evasion on the System shall have committed a summary offense and upon conviction, shall be fined a sum between \$100 and \$1,000 in addition to civil penalties that are already in place. Further, motorists who take affirmative action to evade a System fare shall, upon conviction, have committed a misdemeanor of the third degree which will be punishable by fines ranging from \$3,000 to \$6,500 (depending on the number of offenses) and imprisonment of not more than six months for a second offense. Revenue generated from the additional fare evasion fines imposed by Act 89 is to be deposited in the Commonwealth's Motor License Fund rather than with the Commission; however, restitution for the full fare is due to the Commission. See "CERTAIN FINANCIAL INFORMATION - Performance Audit by the Auditor General" below for Auditor General findings with respect to enforcement powers of Commission. Subsequent to the Auditor General's Performance Audit, Act 165 was signed into law which, among other things, allows for the suspension of vehicle registration for unpaid tolls. In January 2018, the Commission began sending notices of possible vehicle registration suspensions under authority from Act 165 and in February 2018, PennDOT began suspending certain vehicle registrations. More recently, in April 2018 the Commission began filing criminal charges against some of the largest toll violators for theft of services. Such criminal charges are being brought in cooperation with local prosecutors. See "THE COMMISSION - Recent Developments and Pending Legislation" above for additional information on Act 165.

The Commission’s annual revenues from Electronic Toll Collection (ETC – which includes revenues from E-ZPass, VES and Toll by Plate) have increased to \$860.1 million during the Fiscal Year ended May 31, 2017 from \$769.0 million for the Fiscal Year ended May 31, 2016. The Commission’s annual revenues from ticketed drivers (i.e., those not using ETC) decreased to \$254.9 million during the Fiscal Year ended May 31, 2017 from \$262.6 million for the Fiscal Year ended May 31, 2016. The Commission expects that E-ZPass usage will continue to increase. The following table summarizes the Commission’s ETC penetration rates among passenger, commercial and total users for Fiscal Years 2013-2017.

ETC Penetration Rates

| <u>Fiscal Year</u> | <u>Passenger</u> | <u>Commercial</u> | <u>Total</u> |
|--------------------|------------------|-------------------|--------------|
| 2013 | 66% | 83% | 68% |
| 2014 | 70% | 85% | 72% |
| 2015 | 73% | 87% | 75% |
| 2016 | 75% | 89% | 77% |
| 2017 | 78% | 90% | 79% |

The Commission is a member of the E-ZPass Interagency Group (“**IAG**”), a coalition of toll authorities throughout the United States. IAG includes the following agencies: Buffalo and Fort Erie Public Bridge Authority (Peace Bridge); Burlington County Bridge Commission; Delaware Department of Transportation; Delaware River and Bay Authority; Delaware River Joint Toll Bridge Commission; Delaware River Port Authority; Illinois State Toll Highway Authority; Indiana Toll Road Concession Company; Maine Turnpike Authority; Maryland Transportation Authority; Massachusetts Department of Transportation; Metropolitan Transportation Authority Bridges & Tunnels; New Hampshire Department of Transportation; New Jersey Turnpike Authority; New York State Bridge Authority; New York State Thruway Authority; North Carolina Turnpike Authority; Ohio Turnpike & Infrastructure Commission; Port Authority of New York and New Jersey; Rhode Island Turnpike and Bridge Authority; South Jersey Transportation Authority; Thousand Island Bridge Authority; Virginia Department of Transportation; West Virginia Parkway Authority; Skyway Concession Co. LLC; Niagara Falls Bridge Commission; and Kentucky Public Transportation Infrastructure Authority. IAG’s stated mission is “to enable E-ZPass members and affiliated toll operators to provide the public with a seamless, accurate, interoperable electronic method of paying tolls and fees while preserving and enhancing the E-ZPass program.”

New highway construction projects, such as the Mon/Fayette Expressway and Southern Beltway, are being designed and built to be compatible with the E-ZPass system. The installation of the E-ZPass system has required the incorporation of innovative technologies into a single toll system that uses hardware and software adaptable to future technologies. The Commission has a contract, extending through 2024, 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. For a more complete description of the Commission’s Capital Plan, see “CAPITAL IMPROVEMENTS – Ten-Year Capital Plan”

herein. Plans call for enhancements to E-ZPass lane signage and the design of additional Express E-ZPass lanes.

See “CERTAIN FINANCIAL INFORMATION – Toll Schedule and Rates” below for a discussion of the Commission’s toll rates, including recent revisions for E-ZPass customers.

E-ZPass Plus

In November 2009, the Commission began offering E-ZPass customers who meet specific criteria the ability to participate in E-ZPass Plus. E-ZPass Plus allows E-ZPass customers to use their transponder to pay for parking fees at participating facilities displaying the E-ZPass Plus logo.

E-ZPass Only

The Commission has constructed four E-ZPass Only interchanges which are designed for the exclusive use of E-ZPass customers: Virginia Drive (located east of the Fort Washington interchange); Street Road (located west of the Bensalem interchange); Route 29 (located west of the Valley Forge Interchange) and at Route 903 in Carbon County. In addition, a cashless tolling location has been constructed and is operational at the Delaware River Bridge (westbound) which is part of the I-95 Connector in Bucks County. This cashless tolling location is one of the “pilot projects” converting segments of the Commission system to cashless technology. These E-ZPass Only interchanges, cashless tolling and other similarly planned interchanges are expected to reduce congestion at the System’s busier interchanges and provide convenient access to industrial parks and job centers.

Cashless Tolling

Early in 2011, the Commission initiated a feasibility study to examine the benefits and potential issues associated with converting the toll road to a cashless system. The team of McCormick Taylor/CDM Smith (formerly Wilbur Smith Associates) was selected to conduct the study which included an overview of the existing toll collection system and an analysis of cashless systems throughout the United States, comparing the costs and benefits of various electronic tolling options. The feasibility report (the “*Feasibility Report*”) was completed in March 2012, and at that time the Commission determined, based on the assumptions in the Feasibility Report, that conversion to a cashless system was technically feasible from both a financial and physical perspective. In July 2012, the Commission selected HNTB Corporation to act as its Program Manager to lead and direct the multi-disciplinary efforts required to manage and coordinate the design and implementation of a cashless system. The Conceptual Implementation Plan report, including a schedule for conversion, was issued in October 2014.

Following the enactment of Act 89, the Commission reevaluated the schedule, which had contemplated full conversion to a cashless, non-stop system by 2018, and determined that a modified schedule for implementation would be necessary. Further consideration resulted in an approach whereby the existing toll lanes would be equipped with the necessary technology to allow for cashless tolling to occur at the existing plaza locations. At present, the Commission has only authorized the deployment of a “pilot project” involving four segments of the cashless system consisting of the Delaware River Bridge, which went into operation in January 2016; the Beaver Valley Expressway, which went into operation in April of 2017; and Keyser Avenue/Clarks

Summit and the Findley Connector, which went into operation in April 2018. Cashless tolling is being implemented, in part, by a new “TOLL BY PLATE” system. TOLL BY PLATE is a new license plate tolling system installed on overhead gantries at the Delaware River Bridge cashless tolling point and on the Beaver Valley Expressway (Toll 376). Non-E-ZPass customers are invoiced for assessed tolls. Cameras on overhead gantries capture a vehicle’s license plate at highway speed, and a toll invoice is mailed to the vehicle’s registered owner. Although existing toll booths would be removed from service at locations where TOLL BY PLATE is implemented, E-ZPass customers will still use transponders to pay tolls at such locations as overhead gantries are equipped to read E-ZPass transponders. Additional information regarding a cashless tolling system is available on the Commission’s website at <http://www.paturnpike.com/cashlesstolling/cashlesstolling.asp>.⁵

CAPITAL IMPROVEMENTS

Act 61 Projects

In 1985, the General Assembly of the Commonwealth enacted Act 61. Act 61, 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 repealed Act 61, it provides that all activities initiated under Act 61 shall continue and remain in full force and effect and may be completed under Act 44.

System Maintenance and Inspection

The Commission’s engineering and maintenance staff performs maintenance on, and repairs to, the System. In addition, the Commission also uses staff and consultants to perform periodic inspections of the System. Pursuant to the terms of the Senior Revenue Indenture, the Commission must arrange for the System to be inspected at least once every three years by engaging one or more consultants to conduct inspections and prepare a report. The report must state (a) whether the System has been maintained in good repair, working order and condition since the last inspection report and (b) any recommendations which such consultants may have as to revisions or additions to the Commission’s annual capital budget. The most recent inspection report, the Pennsylvania Turnpike Condition Assessment Report 2017 (submitted to the Commission in February 2018), was prepared by Michael Baker International (the “*Condition Assessment Report*”). The next Turnpike Condition Assessment Report is scheduled for completion during 2020 and the Commission anticipates receiving the report in either late 2020 or early 2021.

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

The following summarizes certain information found in the Condition Assessment Report, including certain of the “specific areas” referred to in the preceding paragraph, and in inspection

⁵ The information contained on such website link is not incorporated by reference in this Appendix A.

data gathered in 2017. Three of the four asset groups, including Roadway, Structures and Facilities are rated “Good” overall. The asset group Technology is rated “Fair” to “Good.” Each of the asset groups is in working order based on the condition ratings of the individual assets within the asset group. The individual asset condition rating was developed through an extensive evaluation of available performance data that was both qualitative and quantitative. There were several different evaluation measures used across the array of Commission assets. The derivation of the individual asset rating is detailed in each section of the report. The following is an overall summary for each of the four asset groups.

Roadway

The recent roadway pavement inspection data indicate that the overall condition of the Commission pavement meets or exceeds established criteria with the area noted for skid resistance as the only exception. The supporting roadway features guiderail, attenuators, and median barrier are generally in Fair to Good condition. These assets require regular inspection and prompt repair when damaged for the safety of the Commission customers. Stormwater/Best Management Practices facilities are in Good condition and are being inspected in accordance with permitting requirements; however, a continued focus on regular maintenance or repair of these facilities is needed to keep them functioning as intended. The roadway drainage system seems to be in Fair condition based on qualitative approach used to evaluate this asset. More detailed inspections would be needed to verify the condition of drainage facilities and to establish necessary maintenance activities beyond the routine annual maintenance that the Commission currently performs. Based on a recent visual inspection and a comparative analysis from the 2015 Rock Cut Evaluation, the rock cuts appear to be in Good condition. The overall condition of signs is Good and is being maintained adequately. Recent field evaluations of the Commission’s highly reflective and pavement markings and waterborne pavement markings at selected locations indicate that the Commission’s pavement markings are in Good condition.

Structures

The Turnpike’s bridges and culverts are in Good condition with about 4.2 percent noted as structurally deficient and 58 percent exceeding 50 years in age. Condition ratings are being uploaded to BrM for the 322 sign structures and detailed information is provided in the inspection reports with the overall condition being Good. Retaining walls/noise barriers are in Good condition overall, with only minor areas of concern and no loss of structural integrity. High mast light poles appear to be in Fair condition. High mast light poles are being removed with construction projects that impact them, and will ultimately be phased out. Turnpike tunnels are generally in Fair condition with special attention to be given to structural elements (i.e., ceiling slabs, hanger rods) for corrective action, if needed.

Facilities

Facility condition reports are shared with HMS/Host and Sunoco, who are contractually obligated to operate and maintain the service plazas, to assist with their maintenance responsibilities and capital plans reflecting maintenance needs. Annual facility condition assessments are completed by the Commission and shared with HMS/Host. HMS/Host takes corrective actions on deficiencies and informs the Commission when corrected. The Commission

does monthly inspections to ensure deficiencies have been corrected. Issues raised regarding the service plaza conditions have been resolved by HMS/Host and there are no current issues regarding the conditions of the service plazas. The service plazas are rated as Good. Maintenance buildings are in Fair condition with a number of these buildings requiring rehabilitation. Projects are developed based on Condition Assessment reports with funds being allocated to the Capital Plan to support these projects. The overall condition is Good for the following facilities types: Interchange buildings, Administration buildings, District Fare Collection buildings, and Stockpiles. The State Police Station facilities are rated Good. The two warehouse and training facilities that were assessed in conjunction with the Eastern Training Facility are rated in Fair to Good condition. Overall, the Communication Towers are rated as Fair. Since taking responsibility for inspection and maintenance of the communication towers in 2013, Facilities and Energy Management Operations has advanced a tower climbing and structural analysis review program to assess the condition of Communications Towers. Climbing inspections have been completed on 93% of the towers. Currently, eleven communication towers leased have been determined structurally overstressed and will exceed their design capacity if PTC modifications are made as part of a systemwide communications update initiative without structural reinforcement or other remedial actions. The Commission is currently working on reinforcement or tower replacement projects to support this initiative.

Technology

Technology is comprised of Intelligent Transportation System (ITS) devices, Access Gates and Cashless Tolling equipment. The overall condition is Fair to Good for the ITS devices that were evaluated. The Commission's Information Technology Department continually monitors the virtual network and provides support in troubleshooting issues as needed. The Commission's ITS contractor maintains the ITS equipment through preventative and response maintenance plans. Access Gates are rated in Fair condition and are in the process of being upgraded to improve access capabilities. Cashless Tolling assets were recently deployed and are in Good condition.

Ten-Year Capital Plan

The Commission prepares the Capital Plan for its facilities and equipment (exclusive of the Mon/Fayette and Southern Beltway projects), consisting of the Highway Program, the Technology Program, Fleet Equipment, and Facilities and Energy Management Operations, which it updates each year. All capital projects are reviewed and prioritized and the most critical and important projects necessary to maintain the System in a state of good repair are pursued. The Commission undertook a five-year program of enhanced capital spending, initiated in 2012, to address critical needs of the System such as structurally deficient bridges and total reconstruction projects on the Turnpike Mainline. As a result of the five years of enhanced capital spending, the Commission's percentage of structurally deficient bridges (by count) decreased from 8.1% to 3.8% and the Commission's International Roughness Index improved from 84 to 73 (lower is preferable). Also, the enhanced capital spending enabled the construction of the I-95 toll modifications and primary connections (north/east and west/south, also known as Sections D10 and D20) between I-95 and the Turnpike Mainline.

The Capital Plan for Fiscal Year 2018 was adopted by the Commission on June 6, 2017. The adopted Capital Plan calls for investment of approximately \$5.62 billion, net of federal

reimbursements, over the coming decade and is estimated to support approximately 32,000 jobs from Fiscal Year 2016 to Fiscal Year 2020. The Capital Plan enables the Commission to undertake a number of capital improvements and to pursue new initiatives to maintain and improve the System ensuring that it remains in a state of good repair. The Capital Plan provides continued investment into the System, with an emphasis on the total reconstruction of the Turnpike Mainline and Northeast Extension, addressing structurally deficient bridges and the protection of the infrastructure assets of the Commission. The Capital Plan for Fiscal Year 2018, at approximately \$5.62 billion, represents a constant level of anticipated spending from the capital plan last adopted in May 2016 which also totaled \$5.62 billion. The Capital Plan for Fiscal Year 2018 represents continued investment in critical capital projects and therefore aids in the protection of Commission assets. Deferred capital projects are not of a critical nature and will likely result in a reduction of total miles reconstructed from an average of eight miles annually to seven miles annually. The Fiscal Year 2018 Capital Plan represents a return by the Commission to its historic levels of capital investment.

The Fiscal Year 2018 Capital Plan will require the issuance of additional debt throughout the ten-year period; however, such additional debt issuance is projected to be over \$2 billion lower over the ten-year period (2018-2027) than previously anticipated as part of the FY 2016 Capital Plan. The reduced level of debt issuances is attributable to a \$777 million projected increase in Commission funded pay as you go capital and a \$965 million reduction in overall ten year capital spending. The Commission believes that the capital spending and additional debt issuance, along with the continuing burden of Act 44 obligations to PennDOT, will require the imposition of annual toll increases throughout the ten-year period and beyond. The Traffic Study prepared by CDM Smith (formerly Wilbur Smith Associates) contemplates toll increases of 3.0% to 6.0% in each year.

Exhibit I attached to this Appendix A indicates budget allocations by program for the Fiscal Year 2018 Capital Plan.

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

The highest priority highway project for the Commission is the ongoing full depth roadway total reconstruction of the east/west Turnpike Mainline and Northeast Extension. This work includes the reconstruction and widening of the roadway, the widening of the median, and the replacement of both Mainline and overhead bridges. To date, approximately 132 miles of total reconstruction have been completed and approximately 19 miles are currently in construction. Total reconstruction projects from Milepost 40 to 44, Milepost 202 to 206, Milepost 220 to 227, Milepost 242 to 245, and Milepost A-31 to A-38 are in construction. Currently, approximately 82 miles are in design.

Based on the Fiscal Year 2018 Capital Plan, the Commission plans to spend approximately \$2.36 billion on total reconstruction projects and approximately \$0.6 billion on various bridge and

tunnel projects over the next ten years. In total, the Highway Program includes funding of approximately \$4.579 billion, net of federal reimbursements, over the next ten years.

The Technology Program includes funding of approximately \$177 million over the next ten years to address the Commission's technology needs including toll collection projects, communication, application development and technical operational needs. The Commission has implemented SAP ERP to provide a set of integrated business processes supported by multi-module application software with a centralized data repository.

The Fleet Program includes funding of approximately \$185 million to purchase rolling stock to insure adequate maintenance of the roadway system.

The Facilities and Energy Management Program includes funding of approximately \$372 million to repair and replace the aging facilities of the Commission. This commitment will ensure that major equipment and facilities are in good repair to support ongoing Turnpike System operations.

The implementation of and the potential conversion to a cashless tolling system is estimated to require approximately \$447 million in capital funding over the next ten years. At present, as described above, the Commission has approved a pilot-program for cashless tolling implementation limited to three locations. See "THE TURNPIKE SYSTEM – Cashless Tolling" for additional information.

Mon/Fayette Expressway and Southern Beltway

Four projects constructed as part of the Mon/Fayette Expressway are now in operation. One is an approximately six-mile toll road between Interstate Route 70 and U.S. Route 40 in Washington County. This project was built by PennDOT and turned over to the Commission upon its opening in 1990. The second is an approximately twelve-mile section of toll road from I-68 near Morgantown, West Virginia, to Fairchance, Pennsylvania, which is located just south of Uniontown. The third project is an approximately sixteen-mile section of the Mon/Fayette Expressway from Interstate Route 70 in Washington County to Pennsylvania Route 51 in Allegheny County, which opened in April 2002. The fourth is an approximately fifteen-mile section from Uniontown to Brownsville, including a 3,022-foot bridge over the Monongahela River, which opened to traffic in July 2012. These four contiguous projects, which total 48 miles from Morgantown, West Virginia to PA Route 51 south of Pittsburgh, are now part of the System. On March 21, 2017, the Commission announced that it would stop engineering-design activities on the final 14-mile section of the Mon/Fayette Expressway, extending from PA Route 51 to Interstate Route 376 near Monroeville east of Pittsburgh, in light of the Southwestern Pennsylvania Commission's recent decision to table the project. On June 26, 2017, the Southwestern Planning Commission voted to add the final 14-mile segment of the Mon/Fayette Expressway to its long-range plan. This action will allow the Federal Highway Administration to approve changes to the environmental impact statement, a requirement for construction to commence. The current estimates to complete the final 14 miles of the Mon/Fayette Expressway to Interstate Route 376 are in excess of \$2 billion.

When eventually completed, the Mon/Fayette Expressway would extend from Interstate 68 in West Virginia to Interstate Route 376 in Monroeville, which is east of Pittsburgh.

The proposed Southern Beltway is to be constructed from the Mon/Fayette Expressway, near Finleyville, extending as part of a beltway south of Pittsburgh to Interstate 376 at the Pittsburgh International Airport. It is comprised of three distinct projects. The six-mile project from I-376 to U.S. 22 (also known as the Findlay Connector) opened to traffic in October 2006. The project from U.S. 22 to I-79, received environmental clearance for its 13 miles in September, 2008 and is under construction with an estimated total project budget of \$1.013 billion. Two of the seven roadway sections were bid in 2016 and two were bid in 2017. Section 55A1, Section 55B, Section 55C1-1 and Section 55C1-2 are currently in construction. The remaining three sections will be bid in 2018. When completed in late 2020 or early 2021, the U.S. 22 to I-79 portion of the Southern Beltway will be a cashless tolling facility. The remaining Southern Beltway project, from I-79 to the Mon/Fayette Expressway, received environmental clearance in May 2009. The final portion of the Southern Beltway is currently estimated to cost approximately \$788 million. An EIS re-evaluation has been completed for the Mon/Fayette Expressway and submitted to PennDOT and FHWA. Final design is proceeding on the southern sections of the Mon/Fayette Expressway. Public plans displays for these southern sections were held the first week of April 2018. The proceeds of the Commission's Oil Franchise Tax Revenue Bonds, Series A and B of 1998, Oil Franchise Tax Revenue Bonds, Series A, B and C of 2003, and Oil Franchise Tax Revenue Bonds, Series A-1, B, C, D-2 and E of 2009, and Registration Fee Revenue Bonds, Series of 2001, along with then currently available revenues, were applied to fund the construction of the Mon/Fayette and Southern Beltway projects that have been completed to date. It is anticipated that the remaining costs to complete the Mon/Fayette Expressway and the Southern Beltway will be financed with Oil Franchise Tax Revenues (as defined herein), proceeds of the Oil Franchise Tax Senior Revenue Bonds, Series A of 2018 and the Oil Franchise Tax Subordinate Revenue Bonds, Series B of 2018, along with other funding sources. Although the open sections of the Mon/Fayette Expressway and the Southern Beltway are toll roads, the Tolls (as defined herein) pledged for the repayment of Turnpike Revenue Bonds will not be pledged for the financing of their construction, which will be funded by Oil Franchise Tax Revenues and Registration Fee Revenues.

The Commission has no legal obligation to complete the unfinished portions of the Mon/Fayette Expressway and Southern Beltway projects at this time. However, Act 89 is expected to generate an estimated \$143.3 million in annual Oil Franchise Tax revenues for the Commission by Fiscal Year 2017-2018.

I-95 Interchange

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

The Commission is currently in the first of three phases of its Pennsylvania Turnpike/I-95 Interchange Project (the "***Interchange Project***"). The main objectives of the Interchange Project are to improve the linkage between I-95 and the Turnpike Mainline to create continuity in the interstate system, relieve congestion on local roads which are currently used by travelers to make

the connection between I-95 and the Turnpike Mainline, create additional capacity on the Turnpike Mainline and I-95 to accommodate the transfer of traffic from the local roadway system, and improve travel times through the interchange area.

The first phase of the Interchange Project includes preparatory work and construction of a portion of the interchange between I-95 and the Turnpike Mainline, including northbound I-95 to the eastbound Turnpike Mainline and westbound Turnpike Mainline to southbound I-95 and is currently under construction. This phase, which included construction of a new mainline toll plaza and a cashless tolling plaza westbound, opened in January 2016. The next construction contract, covering Turnpike Mainline Section D10, was bid on June 5, 2014 and construction was substantially completed in December 2017. The final contract in the first phase, covering Turnpike Mainline Section D20, was bid in the Summer 2015 and construction will continue through September 2018. The first phase of the Interchange Project is expected to be completed and open to traffic in the Fall of 2018. The portion of the Turnpike mainline from the Interchange Project eastward to the Delaware River Bridge in Bucks County will be redesignated as Interstate 95. The second phase of the Interchange Project will include the completion of the reconstruction and widening of the remaining interchange connectors. The third phase will be the construction of a new wider bridge over the Delaware River, replacing the existing bridge. Funding for construction of the first phase is included in the Capital Plan.

CERTAIN FINANCIAL INFORMATION

Revenue Sources of the Commission

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

Toll Revenues

The largest part of the Commission's revenues is derived from the collection of all rates, rents, fees, charges, fines and other income derived by the Commission from the vehicular usage of the System and all rights to receive the same (the "**Tolls**"). The Tolls are presently pledged to secure the Commission's Turnpike Revenue Bonds, other Senior Indenture Parity Obligations, as well as any subordinated indebtedness that may be issued under the Senior Indenture (collectively, the "**Senior Indenture Obligations**"). As of the date of this Official Statement, there is \$5,147,895,000 aggregate principal amount of Turnpike Revenue Bonds outstanding under the Senior Indenture.

The foregoing amount includes certain notes evidencing and securing \$250,000,000 in loans through the Immigrant Investor Program (known as the EB-5 visa program) administered by the U.S. Citizenship and Immigration Services, the proceeds of which are being used to fund a portion of the I-95 Interchange Project and projects identified in the Commission's 2017-26 ten-year capital program (the "EB-5 Loans"). The EB-5 Loans have been issued in five tranches (3 tranches on March 18, 2016, a fourth tranche on May 11, 2016 and the most recent tranche on February 21, 2018), each having a five-year term. At the end of each five-year term, the

Commission will evaluate market conditions to determine whether to refinance the loans into either long term, privately placed or publicly offered Turnpike Revenue Bonds, based on numerous factors including the lowest available interest rates. See <https://emma.msrb.org/ES1058248-ES826410-ES1227554.pdf>, <https://emma.msrb.org/ES1058220-ES826391-ES1227532.pdf> and <https://emma.msrb.org/ER1284410.pdf> for additional information on the EB-5 Loans.

Also included in the principal amount outstanding under the Senior Indenture is \$886,135,000 aggregate principal amount of floating rate notes (FRNs) which includes a direct purchase obligation in the principal amount of \$140,320,000.⁹ See “CERTAIN FINANCIAL INFORMATION – Direct Purchase Obligations” for a summary of direct purchase obligations of the Commission. Other obligations incurred and outstanding under the Senior Indenture include the Commission’s obligations under various interest rate swap agreements having a total current notional amount of \$978,836,000. The Tolls are not pledged to secure the Oil Franchise Tax Revenue Bonds (as defined below), the Registration Fee Revenue Bonds (as defined below) or the bonds and other obligations issued (or otherwise secured) under the Subordinate Indenture (the “*Subordinate Indenture Obligations*”). All Subordinate Indenture Obligations are subordinated to the payment of the Senior Indenture Obligations issued under the Senior Indenture. See “THE COMMISSION – Enabling Acts - *Issuance of Bonds; Commission Payments.*”

Neither the Subordinate Revenue Indenture Obligations, the Oil Franchise Tax Revenue Bonds, nor the Registration Fee Revenue Bonds are secured by or have any interest in the trust estate established pursuant to the Senior Revenue Indenture.

The Commission may in the future, under the terms of the Senior Revenue Indenture, identify in writing certain roads, other than the Turnpike Mainline and the Northeast Extension, as not being part of the System for the purposes of the Senior Revenue Indenture which would eliminate toll revenues from these portions from the definition of Tolls under the Senior Revenue Indenture. The Commission currently has no plans to remove any roads from the System. In addition, under the Senior Revenue Indenture, the Commission has covenanted that it will not sell, lease or otherwise dispose of real estate or personal property comprising a portion of the System except upon compliance with the provisions of the Senior Revenue Indenture, including a determination by resolution that the Net Revenues of the Commission will not be materially adversely affected. The Commission from time to time may consider various proposals that could involve the transfer or other disposition of Commission property. Any such transfer or disposition would be required to comply with the provisions of the Senior Revenue Indenture.

⁶ The information contained on such website link is not incorporated by reference in this Appendix A.

⁷ The information contained on such website link is not incorporated by reference in this Appendix A.

⁸ The information contained on such website link is not incorporated by reference in this Appendix A.

⁹ For more information on the Variable Rate Turnpike Revenue Bonds, Series B-1 and B-2 of 2017, see <https://emma.msrb.org/EP1026404-EP795251-EP1196777.pdf>. The information contained on such website link is not incorporated by reference in this Appendix A.

Oil Franchise Tax Revenues

The Commission's second principal stream of revenues consists of that portion of the Commonwealth's oil company franchise tax revenues (the "***Oil Franchise Tax Revenues***") allocated by statute to the Commission and pledged to the holders of the Bonds (also referred to herein as the "***Oil Franchise Tax Revenue Bonds***") as part of the Trust Estate. Upon the issuance of the 2018 Bonds, the Commission will have \$1,072,919,026.10 aggregate principal amount of Oil Franchise Tax Revenue Bonds outstanding under the Indenture (including compounded amounts as of June 1, 2018). The Oil Franchise Tax Revenue Bonds, including the 2018 Bonds, are secured solely by the Trust Estate which includes, among other things, such Commission Allocations. **The Oil Franchise Tax Revenues are not pledged to secure any Senior Revenue Indenture Obligations, any Subordinate Revenue Indenture Obligations or any Registration Fee Revenue Bonds.** Note, however, that funds in the Oil Franchise Tax General Fund may be used by the Commission for any purposes as authorized by the Enabling Acts. See "OIL FRANCHISE TAX – Act 3" in the forepart of this Official Statement for a discussion regarding expected withdrawals from the Oil Franchise Tax General Fund to, among other things, replenish anticipated future deficiencies in a self-liquidity fund established for certain 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***"), of which \$386,510,000 aggregate principal amount is outstanding as of the date of this Official Statement, which includes a direct purchase obligation in the aggregate principal amount of \$231,425,000. See "CERTAIN FINANCIAL INFORMATION – Direct Purchase Obligations" for a summary of direct purchase obligations of the Commission. 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 any Senior Revenue Indenture Obligations, Subordinate Revenue Indenture Obligations or the Oil Franchise Tax Revenue Bonds.**

Direct Purchase Obligations

Below is a summary of direct purchase obligations of the Commission outstanding as of the date of this Official Statement. These transactions may include terms and provisions, including but not limited to covenants and events of default, that are different from those contained in the Senior Indenture, Subordinate Indenture, and/or the Registration Fee Indenture. Copies of certain agreements relating to these transactions have been filed on, and may be viewed on, the Municipal Securities Rulemaking Board - Electronic Municipal Market Access (EMMA) website as referenced below.

EB-5 Loans (Senior)

A \$200,000,000 loan, with a current balance of \$200,000,000, authorized under the Immigrant Investor Program (known as the EB-5 visa program) administered by the U.S. Citizenship and Immigration Services is a parity obligation with Turnpike Revenue Bonds and other parity obligations issued under the Senior Indenture.

An up to \$800,000,000 loan is authorized through the EB-5 visa program and one tranche of loan proceeds has been drawn to date with a current loan balance of \$50,000,000. Such loans are and will be parity obligations with Turnpike Revenue Bonds and other parity obligations issued under the Senior Indenture.

Additional information regarding the forgoing loans can be found at:

<https://emma.msrb.org/ES1058248-ES826410-ES1227554.pdf>¹⁰

<https://emma.msrb.org/ES1058220-ES826391-ES1227532.pdf>¹¹

<https://emma.msrb.org/ES1058229-ES826390-ES1227529.pdf>¹²

<https://emma.msrb.org/ER1284410.pdf>¹³

See also “CERTAIN FINANCIAL INFORMATION – Revenue Sources of the Commission – Toll Revenues” and “CERTAIN FINANCIAL INFORMATION – Revenue Sources of the Commission – Future Financing Considerations” herein.

2017B Turnpike Revenue Bonds (Senior)

Variable Rate Turnpike Revenue Bonds, Series B-1 and B-2 of 2017 (the “2017B Turnpike Revenue Bonds”), of which \$140,320,000 aggregate principal amount is outstanding as of the date of this Official Statement, were issued under the Senior Indenture and are parity obligations with Senior Revenue Bonds and other parity obligations issued under the Senior Indenture. Additional information regarding the 2017B Turnpike Revenue Bonds can be found at: <https://emma.msrb.org/EP1026404-EP795251-EP1196777.pdf>.¹⁴

2017C Turnpike Revenue Bonds (Senior)

Fixed Rate Turnpike Revenue Bonds, Series C of 2017 (the “2017C Turnpike Revenue Bonds”), of which \$103,330,000 aggregate principal amount is outstanding as of the date of this Official Statement, were issued under the Senior Indenture and are parity obligations with Senior Revenue Bonds and other parity obligations issued under the Senior Indenture. Additional information regarding the 2017B Turnpike Revenue Bonds can be found at: <https://emma.msrb.org/ER1116424-ER873302-ER1273998.pdf>.¹⁵

¹⁰ The information contained on such website link is not incorporated by reference in this Appendix A.

¹¹ The information contained on such website link is not incorporated by reference in this Appendix A.

¹² The information contained on such website link is not incorporated by reference in this Appendix A.

¹³ The information contained on such website link is not incorporated by reference in this Appendix A.

¹⁴ The information contained on such website link is not incorporated by reference in this Appendix A.

¹⁵ The information contained on such website link is not incorporated by reference in this Appendix A.

First Series of 2017 Bonds (Subordinate)

Turnpike Subordinate Revenue Refunding Bonds, First Series of 2017 (the “First Series of 2017 Bonds”), of which \$291,850,000 aggregate principal amount is outstanding as of the date of this Official Statement, were issued under the Subordinate Indenture and are parity obligations with certain Subordinate Revenue Bonds and other parity obligations issued under the Subordinate Indenture. Additional information regarding the First Series of 2017 Bonds can be found at: <https://emma.msrb.org/ES1055711-ER826006-ES1225682.pdf>.¹⁶

2005 Registration Fee Bonds (Registration Fee)

Registration Fee Revenue Bonds, Series B, C, and D of 2005 (the “2005 Registration Fee Bonds”), outstanding in the aggregate principal amount of \$231,425,000 as of the date of this Official Statement, were converted to a direct purchase transaction in October 2015. The 2005 Registration Fee Bonds were issued under a separate Indenture securing Registration Fee Revenue Bonds and are parity obligations with Registration Fee Revenue Bonds and any other parity obligations issued under such Indenture. Additional information regarding the 2005 Registration Fee Bonds can be found at: <https://emma.msrb.org/EP1026791-EP795538-EP1197062.pdf>.¹⁷

Toll Schedule and Rates

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

Between 1957 and 2008, the Commission implemented only five revisions in its toll schedule, effective on September 1, 1969, August 1, 1978, January 2, 1987, June 1, 1991 and August 1, 2004. On August 1, 2004, Turnpike System 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. Such toll increase was consistent with the rate of inflation over the 13 years since the Commission’s prior toll increase in 1991. During such time, all incremental revenue generated by such toll increase was used to fund capital improvements to the System’s roads, tunnels and other upgrades.

¹⁶ The information contained on such website link is not incorporated by reference in this Appendix A.

¹⁷ The information contained on such website link is not incorporated by reference in this Appendix A.

Since 2008, the Commission has implemented rate increases as follows:

- On July 22, 2008, the Commission approved a toll increase in the amount of 25% (except for the Southern Beltway and the Mon/Fayette Expressway) which became effective on January 4, 2009, with the expectation that it would implement annual increases thereafter.
- On August 18, 2009, the Commission approved a toll increase in the amount of 3% (except for the Southern Beltway) which became effective on January 3, 2010.
- On July 13, 2010, the Commission adopted several revenue enhancement measures that took effect on January 2, 2011. For E-ZPass users, tolls increased by 3%. For cash customers, tolls increased by 10% (rounded to the nearest \$0.05). (Tolls on the Southern Beltway were not increased.) Annual fees for use of E-ZPass transponders increased from \$3 per transponder to \$6 per transponder. Finally, the commercial discount program, which provided for tiered discounts of 10%, 15% and 20% off published toll rates depending on total monthly fares, was adjusted to provide tiered discounts of 5%, 10% and 15%. These revenue enhancements were used to provide funds for payments under the Amended Funding Agreement and other Act 44 purposes, including funding of the Commission's capital expenditure program and normal operating expenditures.
- On July 19, 2011, the Commission approved a toll increase (except on the Southern Beltway) which took effect on January 2, 2012. E-ZPass users did not see a toll increase, and cash customers saw an increase of 10%. In addition, commercial discounts were reduced. The 15% volume discount was eliminated and the remaining discounts were set at a 5% discount for \$5,000-\$10,000 in monthly tolls and a 10% discount for more than \$10,000 in monthly tolls. In addition, the Commission also approved approximate overall toll rate increases that among E-ZPass users and cash customers would average 3% annually for each of the 2013 and 2014 calendar years.
- At meetings on July 18, 2012 and September 4, 2012, the Commission approved toll increases which became effective on January 6, 2013. Tolls for cash customers generally increased by 10%, except for the Southern Beltway, and tolls for E-ZPass users increased by 2%. On the Southern Beltway, cash tolls for all classes (which had never increased since its opening in 2006) increased by 50%, and E-ZPass rates increased by 25%. Annual fees for non-commercial use of E-ZPass transponders decreased from \$6 per transponder to \$3 per transponder due to lower cost from the supplier. Finally, the commercial discount program was further adjusted. The 10% discount was eliminated and the minimum toll amount for discount eligibility increased from \$5,000 to \$10,000. The revised discount program provided for a 5% discount on total monthly fares of \$10,000 or more.
- At its meeting on July 16, 2013, the Commission clarified its previously approved toll increase which was to occur in January 2014. The Commission approved a differential to the toll increases which became effective on January 5, 2014. Tolls

(except on the Southern Beltway) increased by 12% for cash customers and by 2% for E-ZPass users. The toll increase differential kept the overall toll revenue increase to approximately 3%, in keeping with previous approvals of the Commission. Additionally, the remaining commercial discount program (5% volume discount on total monthly fares of \$10,000 or more) was approved for elimination, effective January 5, 2014.

- At its meeting on September 20, 2013, the Commission partially reinstated the commercial discount to provide a three percent (3%) discount to Turnpike System commercial E-ZPass account holders that expend \$20,000 or more in tolls per month on the Turnpike System.
- On June 17, 2014, the Commission approved a toll increase (except for the Southern Beltway) in the amount of 5% for both cash and E-ZPass users effective January 4, 2015.
- On July 7, 2015, the Commission approved a toll increase in the amount of 6% for both cash and E-ZPass users effective January 3, 2016.
- On July 19, 2016, the Commission approved a toll increase in the amount of 6% for both cash and E-ZPass users effective January 2017.
- On July 18, 2017, the Commission approved a toll increase in the amount of 6% for both cash and E-ZPass users which will be effective January 2018 and apply to all portions of the Turnpike System, except as follows: (i) no toll increase for Delaware River Bridge EZpass and Toll-By-Plate customers, (ii) Clarks Summit & Keyser Avenue toll rates will increase in April 2018 with the conversion of these locations to Cashless Tolling, and (iii) Findlay Connector toll rates will increase in April 2018 or at the time of conversion to Cashless Tolling if different than April 2018, and will be as follows: (x) E-Zpass - \$1.00 and (y) Toll-By-Plate - \$1.50.

Traffic data for Fiscal Year ended May 31, 2017 indicates a 7.9% increase in adjusted gross toll revenue, with a 0.7% increase in traffic volume, as compared to data for Fiscal Year ended May 31, 2016. Improving economic conditions and gasoline price declines have positively impacted traffic volumes and revenue. Unaudited traffic data for the first nine months of Fiscal Year 2018 indicates a 7.0% increase in adjusted gross toll revenue, with an increase in traffic volume of 0.1% as compared to the same period in Fiscal Year 2017.

The following Table I illustrates the tolls and per mile rates applicable to each vehicle class for a trip on the Turnpike Mainline from Interchange 1 through Interchange 353 following the toll increase effective January 7, 2018:

TABLE I
Current Tolls and Per Mile Rates for Mainline
Roadway East - West Complete Trip
Neshaminy Falls¹ - Warrendale (Ticket System)

| Vehicle Toll Class | Gross Vehicle Weight (Thousand Pound) | Toll Rate Cash Effective 1/2018 | Per Mile Cash Rate | Toll Rate EZ-Pass Effective 1/2018 | Per Mile EZ-Pass Rate |
|--------------------|---------------------------------------|---------------------------------|--------------------|------------------------------------|-----------------------|
| 1 | 1-7 | 47.55 | 0.147 | 34.07 | 0.105 |
| 2 | 7-15 | 69.85 | 0.216 | 50.03 | 0.155 |
| 3 | 15-19 | 84.35 | 0.261 | 60.38 | 0.187 |
| 4 | 19-30 | 101.15 | 0.313 | 72.47 | 0.224 |
| 5 | 30-45 | 141.85 | 0.439 | 101.80 | 0.315 |
| 6 | 45-62 | 177.90 | 0.551 | 127.69 | 0.395 |
| 7 | 62-80 | 254.70 | 0.789 | 182.89 | 0.566 |
| 8 | 80-100 | 333.85 | 1.034 | 239.84 | 0.743 |
| 9 | Over 100 | 1836.40 | 5.685 | 1319.950 | 4.087 |

¹ Effective January 3, 2016 the eastern-most terminus of the ticket system was moved about six miles to the west from the former Delaware River Bridge toll plaza to the new Neshaminy Falls toll plaza. As a result of this change, Table I may differ from prior versions issued by the Commission.

Notes:

The above rates represent an "East West" trip for the ticket toll system between the Neshaminy Falls (#353) interchange and Warrendale (#30). The 30-mile Gateway to Warrendale roadway between Warrendale and the Ohio Turnpike has a barrier toll at the Gateway Mainline interchange (#2). For purposes of the Senior Indenture, the Mainline is the entire length of the roadway between Ohio and the Delaware River Bridge. The toll on the Gateway connector is payable only when traveling eastbound and is standard for all vehicles of a class, regardless of distance traveled. *The cash rate as of January 7, 2018 is \$7.45 for the first two axles, \$14.65 for three axles, \$21.90 for four axles, \$29.00 for five axles and \$36.20 for six axles.*

Beginning January 3, 2016 the Commission has implemented a new "cashless tolling" system from the Delaware River Bridge to the new Neshaminy Falls toll plaza. The toll on the Delaware River Bridge to Neshaminy Falls portion is a one-way toll westbound only, and is collected by a new "toll-by-plate" system or by E-ZPass. *The toll-by-plate rate as of January 7, 2018 is \$6.75 for the first two axles, \$13.50 for three axles, \$20.25 for four axles, \$27.00 for five axles and \$33.75 for six axles. The E-ZPass rate is \$5.00 for the first two axles, \$10.00 for three axles, \$15.00 for four axles, \$20.00 for five axles, and \$25.00 for six axles.* Permits are required for all over-dimensional loads.

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, and payments to PennDOT under the Amended Funding Agreement.

Five-Year Financial History

The following Table II summarizes certain operating and revenue information with respect to the System for the Fiscal Years from 2013 to 2017, and for the nine-month periods ended February 28, in Fiscal Years 2017 and 2018. The following Table III summarizes certain financial information with respect to the System for the Fiscal Years from 2013 to 2017 and for the nine-month periods ended February 28, in Fiscal Years 2017 and 2018. This information is derived from the Commission's regularly prepared books and records. The financial information presented

in Table III is a combination of cash basis financial statements with certain accruals included. **Such information is not presented in accordance with generally accepted accounting principles and has not been audited.** In the opinion of management of the Commission, the financial information for the nine-month period ended February 28, for Fiscal Years 2017 and 2018, is presented on a basis consistent with the presentation of the audited information below. Such interim information is not indicative of the results that may be expected for the entire Fiscal Year.

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 2017 AND 2016 FINANCIAL STATEMENTS” of this Official Statement (the “*Financial Statements*”).

The Commission currently makes certain operating and financial information, including its audited annual financial statements and information corresponding to the information set forth below in Tables II and III, available through the Municipal Securities Rulemaking Board - Electronic Municipal Market Access (<http://www.emma.msrb.org>)¹⁸ pursuant to its undertakings in accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended. Information to be provided pursuant to the Commission’s undertaking in connection with the bonds offered pursuant to this Official Statement is described in the forepart of this Official Statement under the caption “CONTINUING DISCLOSURE.”

TABLE II
Number of Vehicles and Fare Revenues – Summarized by Fare Classification

| | <i>(in thousands)</i> | | | | | Nine-Months | |
|-----------------------------|--------------------------|------------------|------------------|--------------------|--------------------|--------------------|------------------|
| | Fiscal Year Ended May 31 | | | | | Ended February 28* | |
| | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>FY 2017</u> | <u>FY 2018</u> |
| Number of Vehicles:* | | | | | | | |
| Passenger | 163,690 | 163,788 | 166,192 | 171,566 | 172,617 | 129,834 | 129,398 |
| Commercial | 24,207 | 24,891 | 26,144 | 27,319 | 27,686 | 20,698 | 21,309 |
| Total | 187,897 | 188,679 | 192,336 | 198,885 | 200,303 | 150,532 | 150,707 |
| Fare Revenue: | | | | | | | |
| Passenger | \$471,514 | \$497,671 | \$533,054 | \$588,295 | \$638,787 | \$476,545 | \$505,421 |
| Commercial | 350,226 | 368,395 | 401,198 | 443,325 | 476,189 | 351,263 | 382,067 |
| Total | 821,740 | 866,066 | 934,252 | 1,031,620 | \$1,114,976 | \$827,808 | \$887,488 |
| Discount | -10,198 | -4,220 | -2,106 | -1,504 | -3,915 | -2,900 | -4,908 |
| Net Fare Revenues | \$811,542 | \$861,846 | \$932,146 | \$1,030,116 | \$1,111,061 | \$824,908 | \$882,580 |

* Unaudited

¹⁸ The information contained on such website link is not incorporated by reference in this Appendix A.

TABLE III
Summary of System Revenues and Operating Expenditures
Before Interest and Other Charges (1)(2)
(000's Omitted)

| | Fiscal Year Ended May 31, | | | | | Nine-Months ended February 28 * | |
|--|---------------------------|------------------|------------------|--------------------|--------------------|------------------------------------|------------------|
| | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>FY 2017</u> | <u>FY 2018</u> |
| Revenues | | | | | | | |
| Net Toll Revenues | \$811,542 | \$861,846 | \$932,146 | \$1,030,115 | \$1,111,061 | \$824,953 | \$882,580 |
| Concession Revenues | 3,302 | 3,554 | 3,772 | 3,932 | 4,100 | 3,172 | 3,106 |
| Senior Interest Income | 15,107 | 11,482 | 9,459 | 9,511 | 11,664 | 7,758 | 10,501 |
| Subordinate Interest Income | 4,198 | 3,237 | 3,384 | 3,975 | 4,314 | 4,089 | 3,809 |
| MLF Enhanced Interest Income | 192 | 198 | 165 | 190 | 248 | 226 | 265 |
| Miscellaneous | 16,792 | 15,355 | 13,867 | 18,644 | 19,235 | 15,425 | (709) |
| Total Revenues | \$851,133 | \$895,672 | \$962,743 | \$1,066,367 | \$1,150,622 | \$855,673 | \$899,552 |
| Operating Expenditures (2) | | | | | | | |
| General & Administrative | \$41,632 | \$39,983 | \$39,541 | \$40,725 | \$47,861 | \$36,301 | \$35,608 |
| Traffic Engineering and Operations | 4,455 | 3,966 | 3,986 | 4,654 | 3,813 | 2,763 | 2,496 |
| Service Centers | 24,480 | 22,448 | 24,128 | 28,304 | 32,304 | 24,428 | 27,147 |
| Employee Benefits | 80,670 | 83,810 | 98,475 | 107,646 | 113,986 | 81,086 | 86,458 |
| Toll Collection | 60,862 | 59,139 | 60,429 | 59,387 | 60,112 | 44,587 | 44,290 |
| Normal Maintenance | 65,924 | 74,789 | 73,792 | 64,545 | 66,191 | 49,706 | 53,971 |
| Facilities and Energy Mgmt. Operations | 8,903 | 9,850 | 10,957 | 10,886 | 11,266 | 8,292 | 8,403 |
| Turnpike Patrol | 36,171 | 39,818 | 41,234 | 46,161 | 47,223 | 34,398 | 36,584 |
| Total Operating Expenditures | \$323,097 | \$333,803 | \$352,542 | \$362,308 | \$382,756 | \$281,561 | \$294,957 |
| Revenues less Operating Expenditures | \$528,036 | \$561,869 | \$610,201 | \$704,059 | \$767,866 | \$574,112 | \$604,595 |
| Senior Annual Debt Service Requirement | \$142,552 | \$158,995 | \$170,155 | \$215,019 | \$237,010 | | |
| Coverage Ratio (3) | 3.67 | 3.51 | 3.57 | 3.26 | 3.22 | | |
| Annual Subordinate Debt Service Requirement | \$156,067 | \$196,475 | \$205,627 | \$222,064 | \$233,804 | | |
| Coverage Ratio (4) | 1.77 | 1.58 | 1.62 | 1.61 | 1.63 | | |
| Annual MLF Enhanced Debt Service Requirement | \$20,305 | \$29,632 | \$36,027 | \$36,525 | \$43,348 | | |
| Coverage Ratio (5) | 1.66 | 1.46 | 1.48 | 1.49 | 1.49 | | |

- (1) This summary of revenues and operating expenditures is not intended to present results of operations in conformity with generally accepted accounting principles. Debt service is net of capital interest and receipt of Federal Subsidy.
- (2) Certain expenditure amounts for fiscal years 2013 to 2015 have been reclassified between General & Administrative and Toll Collection. The Commission had a recent reorganization that combined Fare Collection and ETC departments and created a "Toll Collection" functional area. The reclassifications were necessary so prior year numbers were presented in a manner that is consistent with current year (FY2016) reporting.
- (3) Calculated using Senior Interest Income.
- (4) Calculated using Senior and Subordinate Interest Income.
- (5) Calculated using Senior, Subordinate and MLFE Interest Income.

*Unaudited

Budget Process

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

In addition, Act 44 requires the Commission to prepare and submit an annual financial plan to the Secretary of the Budget of the Commonwealth no later than June 1 of each year for the ensuing Fiscal Year, describing its proposed operating and capital expenditures, borrowings, liquidity and other financial management covenants and policies, estimated toll rates and all other revenues and expenses. The purpose of the annual financial plan is to demonstrate that the Commission's operation in accordance with such plan can be reasonably anticipated to generate unencumbered funds sufficient to make all payments due to PennDOT under Act 44, Act 89 and the Amended Funding Agreement in the upcoming year after all other Commission obligations and interest thereon, sinking fund requirements of the Commission, and other requirements in any trust indenture, notes or resolutions have been met. Any deviations and the causes therefor in prior year plans must be explained. The Commission delivered to the Secretary of the Budget its Act 44 Financial Plan for Fiscal Year 2018 on June 1, 2017. See "THE COMMISSION – Enabling Acts – *Rules Relating to Governance and Accountability Under the Enabling Acts*" above.

Performance Audit by the Auditor General

The Enabling Acts require 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 two years. The Act of October 23, 1988, P. L. 1059, No. 122 ("*Act 122*") also requires the Auditor General to conduct a financial audit and a compliance audit of the Commission every four years.

On September 2, 2016, Auditor General Eugene A. DePasquale issued a final report presenting the results of his quadrennial audit of the Commission under Act 44 and Act 122. The financial portion of the audit covered the period from June 1, 2010 to May 31, 2015, and the performance portion of the audit covered the period from June 1, 2014 to July 11, 2016. The Auditor General's office did not conduct its own financial audit but reviewed audits and supporting documentation of the independent firm that audits the Commission's financial statements annually, including working papers for the five fiscal years ended May 31, 2011 through May 31, 2015.

The audit report includes new findings with respect to the following areas:

- Commission's ability to raise toll revenue to cover Act 44/89 payments to PennDOT and expenditures for capital projects is potentially unsustainable;
- rapid increases in toll violations with little enforcement power may lead to additional financial problems for the Commission; and

- compliance with Commission policies and procedures in connection with services and supplies contracts; compliance with Commonwealth's Procurement Code in connection with construction contracts.

The audit report also includes recommendations relating to prior audit findings with respect to the following areas:

- non-revenue use of the Turnpike System by Commission employees;
- non-revenue use of the Turnpike System by nearly 5,000 consultants, contractors, and other state government officials;
- continued or expanded monitoring, review and inspection of the Turnpike System's tunnels; and
- reimbursement of the travel and other expenses of Commissioners.

On August 18, 2016, in response to the release by the Auditor General of a draft report, the Commission's Chief Executive Officer responded by letter to the Auditor General, addressing the proposed recommendations of the Department of Auditor General. The full text of the Department of Auditor General's final report and the Commission's response may be found on the Commission's website at:

<https://www.paturndpike.com/pdfs/business/finance/AuditorGeneralsPerformanceAuditSept2016.pdf>.¹⁹

On December 21, 2017, Auditor General Eugene A. DePasquale informed the Commission that the Department of the Auditor General (the "Department") will conduct a financial and performance audit of the Pennsylvania Turnpike Commission in accordance with Act 44 and Act 89. The financial portion of the audit will cover the period of June 1, 2015 through May 31, 2017 while the performance audit will cover the period of June 1, 2015 through the end of the Department's audit procedures. The Department has indicated that its preliminary audit objectives will include, but not be limited to a review and evaluation of the process of selecting and awarding construction contracts as well as to determine if the Commission's revenue collections are meeting projected toll revenue expectations in order to meet its payment obligations and planned capital improvement projects.

Financial Policies and Guidelines

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

¹⁹ The information contained on such website link is not incorporated by reference in this Appendix A.

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

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

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

The Debt Management Policy establishes parameters and provides guidance governing the issuance and management of Commission debt. It addresses such issues as usage of unhedged variable rate debt, rate covenants and limitations on additional bonds and disclosure. Notwithstanding the rate covenants in the Senior Revenue Indenture and the Commission's Debt Management Policy, it is the internal policy of the Commission's management to maintain 2.00 debt service coverage on the Turnpike Revenue Bonds, 1.30 debt service coverage on the Subordinate Revenue Bonds and 1.20 debt service coverage on the Special Revenue Bonds. For a discussion of the rate covenant under the Senior Revenue Indenture, see "SECURITY FOR THE 2016A BONDS – Rate Covenant" in the forepart of this Official Statement. The Commission's Debt Management Policy is available on the Commission's website at <https://www.paturndpike.com/pdfs/business/Debt%20Management%20Policy%20Letter.pdf>.²⁰

Currently, approximately 89% of the Commission's outstanding debt is fixed rate, seven percent is synthetic fixed and four percent is unhedged variable rate.

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

²⁰ The information contained on such website link is not incorporated by reference in this Appendix A.

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

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

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

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

Prohibited Agreements. The Commission will not use Swaps that:

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

Annual Swap Report. The Commission’s Assistant Chief Financial Officer for Financial Management, in consultation with the Commission’s Swap Advisor and legal counsel, will evaluate the risks associated with outstanding Swaps at least annually and provide to the senior executives and the Commissioners a written report of the findings based upon criteria set forth in the Swap Policy.

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

The Commission has interest rate exchange agreements with respect to its Turnpike Revenue Bonds, Series 2009A, Series 2010B, Series 2013B, Series 2014B and 2017B. In addition, the Commission has interest rate exchange agreements with respect to its Subordinate Revenue Bonds Series 2017R-1, Registration Fee Revenue Bonds, Series 2005, and Oil Franchise Tax Revenue Bonds, Series 2009B and 2016A. The aggregate market value of the swaps to the counterparties thereto from the Commission was calculated as of March 31, 2018, as follows:

Interest Rate Exchange Agreements
As of April 30, 2018

| Lien | Current Notional | Mark to Market Valuation |
|----------------------------|------------------|-----------------------------|
| Senior Bonds | 978,836,000 | (111,147,727) |
| Subordinate Bonds | 291,850,000 | 6,013,211 |
| Motor Vehicle Registration | 231,425,000 | (59,097,772) |
| Oil Franchise Tax | 400,000,000 | (4,303,678) |

See Note 4, Note 7 and Note 9 to the Financial Statements for additional information relating to the foregoing. The Commission does not have any interest rate exchange agreements associated with its Special Revenue Bonds.

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

In addition, on July 27, 2017, the Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR rates after 2021 (the “**FCA Announcement**”). Many of the Commission’s Swaps use a LIBOR based rate as a reference rate for determining payments to be received or payments to be made thereunder. It is not possible to predict the effect of the FCA Announcement, any changes in the methods pursuant to which LIBOR rates are determined, or any other reforms to LIBOR that may be enacted, any of which may adversely affect the determination of LIBOR rates or result in the phasing out of LIBOR as a reference rate. Any such effects could result in a sudden or prolonged increase or decrease in reported LIBOR rates, or result in the replacement of LIBOR with other reference rates, and could have a negative impact on the market value of the Commission’s swaps and the payment obligations of the Commission thereunder.

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.

More recently, the Commission has adopted additional financial policies related to post issuance compliance procedures and continuing disclosure.

The Tax-Exempt Debt, Build America Bonds and Other Tax-Advantaged Debt Post-Issuance Compliance Policies and Procedures (the “*Post Issuance Compliance Policy*”) became effective on December 21, 2011 and implemented various policies and procedures to ensure that the Commission complies with all applicable federal tax rules related to its tax-exempt debt, Build America Bonds and other tax-advantaged debt issuances. Among other items, the policy requires compliance with all applicable federal tax documentation and filing requirements, yield restriction limitations, arbitrage rebate requirements, use of proceeds and financed projects limitations and recordkeeping requirements.

The Continuing Disclosure Policy was adopted by the Commission on February 2, 2016 and applies to all publicly offered Commission municipal securities that are subject to federal securities laws and/or continuing disclosure agreements. The policy requires the Commission to comply with all applicable securities laws, satisfy in a timely manner all contractual obligations undertaken pursuant to continuing disclosure agreements or otherwise, and to adhere to best practices for disclosure. The policy also requires the development, establishment and implementation of written procedures necessary to implement the Continuing Disclosure Policy, identifies key Commission participants responsible for disclosure, defines the role of Commission Disclosure Counsel and addresses training and document retention related to disclosure obligations.

Copies of the Commission’s Investment Policy, Liquidity Standard Policy, Debt Management Policy, Swap Policy, Post Issuance Compliance Policy and Continuing Disclosure Policy can be found on the Commission’s website at: https://www.paturnpike.com/pdfs/about/Policy_Letters.pdf.²¹

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

Future Financing Considerations

The Commission may issue additional bonds under the Senior Revenue Indenture and the Subordinate Revenue Indenture. In addition, 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. The Commission anticipates that it will borrow substantial additional funds for the purpose of funding capital expenditures for the System

²¹ The information contained on such website link is not incorporated by reference in this Appendix A.

pursuant to the Ten-Year Capital Plan. Borrowings for the Ten-Year Capital Plan are expected to be undertaken principally under the Senior Revenue Indenture. In addition, pursuant to Act 89, the Commission anticipates that it will borrow substantial additional funds for purposes of funding payments under Act 44, Act 89 and the Amended Funding Agreement through Fiscal Year 2021-2022. Such borrowings are expected to be undertaken principally under the Subordinate Revenue Indenture. In addition, the Commission may from time to time increase toll rates to meet the debt, capital and operational obligations of the Commission. The most recent toll increase that has gone into effect was on January 7, 2018. See “CERTAIN FINANCIAL INFORMATION – Toll Schedule and Rates” above for further information.

The Commission’s Act 44 Financial Plan anticipates multiple funding sources will be utilized to support the estimated \$5.62 billion in net costs associated with its current ten-year capital plan. These funding sources will include the use of current revenues (pay-as-you-go), proceeds of Turnpike Revenue Bonds and proceeds of loans issued through the Immigrant Investor Program (known as the EB-5 visa program) administered by the U.S. Citizenship and Immigration Services. The Commission expects to issue one or more additional series of Turnpike Revenue Bonds under the Senior Indenture during 2018 for the purpose of funding costs of capital projects included in the Commission’s current ten-year capital program. Additionally, the Commission previously entered into a loan agreement dated August 4, 2016, (see <http://emma.msrb.org/ES821235-ES644377-ES1039543.pdf> ²² for a copy of such agreement) pursuant to which the Commission expects to borrow up to \$800 million (in up to sixteen tranches during the years 2017 through 2024) through the Immigrant Investor Program, the proceeds of which would be used to fund costs of capital projects included in the Commission’s current ten year capital program. Any such debt issued under the Immigrant Investor Program (and the subsequent refinancing thereof) is accounted for in the Commission’s current Act 44 Financial Plan and would be issued under the Senior Indenture on parity with the Turnpike Revenue Bonds. In February 2018, the Commission issued the first tranche of \$800 million in EB-5 loans for \$50 million. See “CERTAIN FINANCIAL INFORMATION - Direct Purchase Obligations – *EB-5 Loans (Senior)*” above for further information.

The Commission expects to issue additional bonds under the Subordinate Revenue Indenture, during the Summer of 2018, to finance all or a portion of its quarterly payments to PennDOT pursuant to the Amended Funding Agreement under the Enabling Acts. (See “THE COMMISSION—Enabling Acts – *Issuance of Bonds; Commission Payments*” above.) In addition, the Commission regularly evaluates market conditions with respect to the possible refunding of its outstanding Turnpike Revenue Bonds, Subordinate Revenue Bonds, Special Revenue Bonds, Oil Franchise Tax Revenue Bonds and Registration Fee Revenue Bonds.

The ability of the Commission to repay such borrowings could be adversely affected by many factors, some of which are beyond the control of the Commission. For example, economic circumstances which result in significant declines in motor vehicle acquisition or operating cost increases could adversely affect the number of motor vehicles in use. An increase in the cost of fuel could adversely affect both the number of motor vehicles using the System and the mileage

²² The information contained on such website link is not incorporated by reference in this Appendix A.

that such vehicles travel. Government regulations, such as Clean Air Act requirements, might also significantly restrict motor vehicle use and therefore diminish Tolls.

CERTAIN OTHER INFORMATION

Insurance

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

For capital projects, the Commission maintains Builders' Risk insurance that covers buildings and structures, including temporary structures, while being constructed, erected or fabricated on Commission property. This insurance provides coverage against risk of physical damage and/or loss (subject to policy exclusions) to all buildings and structures during construction. Upon completion, a project is then covered under an All Risk insurance policy that has a \$200 million per occurrence policy limit.

Deductibles range in amount depending on the line of coverage and the nature of the claim. For bridges, tunnels, overpasses, underpasses and viaducts, the deductible is \$5 million. For buildings (including contents), toll plazas and equipment, warehouses and similar facilities, the deductible is \$1 million. The Commission's All Risk Insurance policy also includes loss of income coverage subject to a seven-day waiting period.

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

Personnel and Labor Relations

As of May 1, 2018, the Commission employed 1,969 persons, consisting of 475 management employees, 1,408 full-time union members, and 86 temporary union employees. Seventy one percent (70.4%) of all employees are engaged in maintenance operations and fare collection. There are 783 field personnel in the 22 facilities.

In an effort to meet funding obligations and contain costs, in 2008 the Commission reduced overhead by eliminating vacant positions, offered early retirement incentives to eligible staff members, implemented a reduction-in-force program for positions no longer required, and reduced salary and benefit expenses by cutting 15 management positions. Subsequently, the Commission also reduced overtime by permanently shifting schedules, lowered expenses, and implemented a management pay freeze during Fiscal Years 2009-2010 and 2010-2011, and the first half of Fiscal Year 2011-2012. As a result, the Commission currently employs 581, or 22.8 %, fewer employees than it did during the peak employment year in 2002.

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, professional and first level supervisory personnel. The three collective bargaining agreements became effective on October 1, 2007 and expired on September 30, 2011. An agreement was reached with one bargaining unit, which was effective as of November 19, 2013 and extends until September 30, 2017. Agreements were reached with the other two bargaining units, which were ratified on January 27, 2016. Those agreements expire on September 30, 2019. The memorandum of understanding, which became effective on October 1, 2007, has no termination date. Since union representation began, the Commission has experienced one work stoppage which occurred on November 24, 2004 and lasted for seven days.

Retirement Plan

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

Substantially all employees of the Commission are covered by SERS. The costs of the defined benefit plan are paid by the Commission quarterly based upon a stipulated contribution rate. Participating agency contributions, including those for the Commission, are mandated by statute and are based upon an actuarially determined percentage of gross pay that is necessary to provide SERS with assets sufficient to meet the benefits to be paid to SERS members.

Article II of the Pennsylvania Constitution provides the General Assembly the authority to establish or amend benefit provisions. Act 2001-9, signed into law on May 17, 2001, established Class AA ("**Class AA**") membership whereby, generally, annual full retirement benefits for electing active members is 2.5% of the member's highest three-year average salary (final average salary) multiplied by years of service. Commission employees hired after June 30, 2001, but before January 1, 2011, are Class AA members. Members hired on or before June 30, 2001 had the option, but were not required, to elect Class AA membership.

Those members not electing Class AA membership are considered Class A ("**Class A**"). The general annual benefit for full retirement for Class A members is 2% of the member's final average salary multiplied by years of service. Retirement benefits for Class A and AA employees vest after 5 years of credited service. Class A and AA employees who retire at age 60 with three years of service or with 35 years of service if under age 60 are entitled to an unreduced annual retirement benefit.

On July 6, 2010, Pennsylvania Act 2010-46 was enacted which reduced the employer contribution rates for Fiscal Year 2010-2011, thus reducing the Commission's contribution rates for Fiscal Year 2010-2011 from 3.80% for Class A employees and 4.75% for Class AA employees to 3.29% for Class A employees and 4.11% for Class AA employees. This rate reduction was only for one year.

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

Covered Class A, Class AA, Class A-3 and A-4 employees are required by statute to contribute to SERS at a rate of 5.00%, 6.25%, 6.25% and 9.30% respectively, of their gross pay. Employees’ contributions are recorded in individually identified accounts, which are also credited with interest, calculated quarterly to yield 4.00% per annum, as mandated by statute. Accumulated employee contributions and credited interest vest immediately and are returned to the employee upon termination of service if the employee is not eligible for other benefits.

Participating agency contributions, including those for the Commission, are also mandated by statute and are based upon an actuarially determined percentage of gross pay that is necessary to provide SERS with assets sufficient to meet the benefits to be paid to SERS members. The Commission’s required retirement contribution, as a percentage of covered payroll, by class for Fiscal Years 2013-2017 of the Commonwealth, is as follows:

| <u>Year Ended June 30</u> <u>(Commonwealth’s Fiscal Year)</u> | <u>Class A</u> | <u>Class AA</u> | <u>Class A-3</u> | <u>Class A-4</u> |
|--|----------------|-----------------|------------------|------------------|
| 2017 | 23.96% | 29.95% | 20.70% | 20.70% |
| 2016 | 19.89 | 24.86 | 17.18 | 17.18 |
| 2015 | 15.94 | 19.92 | 13.77 | 13.77 |
| 2014 | 12.10 | 15.12 | 10.46 | 10.46 |
| 2013 | 8.43 | 10.51 | 7.29 | 7.29 |

The Commission’s required contributions and percentage contributed for Fiscal Years 2013-2017 of the Commission are as follows:

| <u>Year Ended May 31</u> | <u>Commission Required Contribution (in millions)</u> | <u>Percent Contributed</u> |
|--------------------------|---|----------------------------|
| 2017 | \$33.3 | 100% |
| 2016 | 27.9 | 100 |
| 2015 | 22.6 | 100 |
| 2014 | 17.4 | 100 |
| 2013 | 12.0 | 100 |

The Commission has budgeted \$48 million for Fiscal Year 2017-2018 SERS required contribution of pension expense.

A copy of SERS’s annual financial statements may be obtained by writing to: State Employees’ Retirement System, 30 North Third Street, P.O. Box 1147, Harrisburg, Pennsylvania, 17108-1147. Additional information about SERS, including its Comprehensive Annual Financial Reports and actuarial valuation reports, are available at <http://www.sers.state.pa.us>.²³

Act 120 also imposes limits referred to as “collars” on annual increases to employer contribution rates (i.e., the employer contribution rate for a particular year may not exceed the sum which results from adding the collar applicable for such year to the prior year’s contribution rate). The collar for Commonwealth Fiscal Year 2015-2016 was 4.5% and will no longer apply effective July 1, 2017.

At fiscal year ended May 31, 2017, the Commission reported a liability of \$379.2 million for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. See Note 8 to the Commission’s Financial Statements for additional information on how such pension liability was calculated.

On June 12, 2017 Governor Wolf signed Act 5 of 2017 (“*Act 5*”) into law that will fundamentally change retirement options for most new Commission employees beginning January 1, 2019. The legislation allows current Commission employees/SERS members to opt-in to one of the three new options between January 1, 2019 and March 31, 2019.

Among other changes, Act 5 creates three new classes of service which include: two new hybrid defined benefit/defined contribution tiers (“*A-5*” and “*A-6*”); and a straight defined contribution plan (“*DC*”) for SERS. The new classes of service will apply to all Commission employees who first become SERS members on or after January 1, 2019. Benefit reductions and

²³ The information contained on such website link is not incorporated by reference in this Appendix A.

increased retirement ages are mandated for future SERS members. Beginning January 1, 2019, new A-5 employees will annually accrue benefits at a rate of 1.25% and A-6 employees will annually accrue benefits at a rate of 1.0%. A-5, A-6 and DC employees will be subject to different employee contribution rates for the defined benefit and defined contribution plans and the vesting period for the defined benefit portion will be ten years while the defined contribution portion vests after three years. Additionally, Act 5 increases the normal retirement age to obtain full, unreduced defined benefit pension benefits for new A-5 and A-6 employees to age 67 and it requires 35 years of service and utilizes the “Rule of 97” (i.e., years of service plus age equal or exceed 97) The final average salary used to calculate defined benefits will be the employee’s five highest salary years. Employer contribution rates for A-5, A-6 and DC employees will be 2.25%, 2.0% and 3.5% respectively.

Act 5 does not affect current Commission retiree’s pension benefits nor does it reduce benefits for current Commission employees. Act 5 also provides special benefit enhancements for current A-3 and A-4 Commission employees who will be allowed to take certain lump sum withdrawals upon retirement. Additionally, A-3 and A-4 employee pension contribution rates will go down when SERS investment returns exceed return targets (“*Shared-Gain*”). This provision balances the current downside risk-sharing required of A-3 and A-4 members as required by Act 120.

For more information on SERS, including Act 120 and Act 5, see the SERS website at http://sers.pa.gov/newsroom_facts.aspx²⁴, http://sers.pa.gov/about_legislation.aspx²⁵, and the disclosure beginning on page 39 of the Official Statement for the Commonwealth’s General Obligation Bonds, First Refunding Series of 2017 dated November 8, 2018, which may be found at the EMMA website at <http://emma.msrb.org/ES1068700-ES834442-ES1235490.pdf>.²⁶ **See also Note 8 to the Commission’s Financial Statements and related Required Supplementary Information for more information on the Commission’s pension liabilities.**

Other Post-Employment Benefit Liabilities

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

The Trust is administered by five trustees appointed by the Commission and who serve 2-year terms. PNC Bank, N.A. serves as custodian of the assets of the Trust. Payments from the Trust are made by the custodian at the direction of the Trustees. The Trust’s financial statements are not included in the financial statements of a public employee retirement system. The Trust

24 The information contained on such website link is not incorporated by reference in this Appendix A.

25 The information contained on such website link is not incorporated by reference in this Appendix A.

26 The information contained on such website link is not incorporated by reference in this Appendix A.

issues a stand-alone financial report, which can be obtained by contacting the Commission's Accounting and Financial Reporting Department.

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

Management and Supervisory Union Employees/Retirees. The Benefits funded by the Trust include certain post-employment medical, prescription drug, dental and vision benefits to management and supervisory union employees based upon their date of hire and years of service. Eligibility categories generally include:

- Employees hired before March 1, 2016, 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 last five years of service must be with the Commission.
- Employees hired on or after March 1, 2016, who have reached 30 years of service and are under age 60; benefit eligibility changes from 30 to 25 years for retirees 60 years of age or older. The last ten years of service must be with the Commission. (Some current and previous Commonwealth employees hired on or after this date would be grandfathered under the first eligibility category.)

The same coverage is provided to surviving spouses or domestic partners and dependents of management and supervisory union retirees who retired on or after March 1, 2001. Surviving spouses or domestic partners of retirees who retired prior to March 1, 2001, may purchase medical coverage at the group rate and dependents are offered coverage under COBRA. Medicare Part B premiums are paid by the retiree, spouse or dependent if age 65 or over, or under age 65 and disabled.

Non-Supervisory Union Employees/Retirees. The Benefits also include certain post-employment medical and prescription drug benefits to non-supervisory union employees who have satisfied the eligibility requirements in the applicable collective bargaining agreement.

- For Local 30 Professionals who were hired prior to January 1, 2011 and Local 250 and 77 employees who were hired prior to February 1, 2016, the earlier of completion of 20 years of credited service or the later of attainment of age 60 and completion of 10 years of credited service. The last 5 years of credited service must be with the Commission.
- For Local 30 Professionals who were hired on or after January 1, 2011 and Local 250 and 77 employees who were hired on or after February 1, 2016, the earlier of completion of 30 years of credited service or the later of attainment of age 60 and completion of 25 years of credited service. The last 10 years of credited service must be with the Commission.

The same coverage is provided to spouses or domestic partners and dependents of eligible non-supervisory union retirees until the death of the retiree. Surviving spouses or domestic partners are required to contribute the full cost of coverage and dependents are offered coverage under COBRA.

The Trust began making payments to benefit providers for retiree claims and related administrative fees in October 2008. Prior to that time, the Commission made such payments. For the year ended May 31, 2017, claims and administration expenses totaled \$19.6 million.

In accordance with the pronouncements of the GASB (Governmental Accounting Standards Board), the Commission implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions during fiscal year 2008*. Pursuant to GASB Statement No. 45, the Commission is required to have biennial actuarial valuations of its OPEB obligations. The most recent actuarial valuation was completed as of January 1, 2016. Based on this valuation, the value of the Trust's assets is \$331.6 million and the actuarial accrued liability is \$330.4 million which nets to a funding excess of \$1.2 million and a funded percentage of 100.4%, using a 6.5% discount rate and assuming that the annual required contribution would be invested in an irrevocable separate trust account.

Prior to implementing GASB Statement No. 45, the Commission funded its post-employment benefit liabilities on a pay-as-you-go basis. As a result of GASB Statement No. 45, the Commission adopted a Retiree Medical Trust Funding Policy, effective September 17, 2008, whereby the Commission anticipates approving an annual contribution to the Trust in the amount of the annual required contribution ("ARC") as determined by the Commission's actuary during the approval of its annual operating budget. The Commission's annual required contributions for Fiscal Year 2016 and Fiscal Year 2017, which includes the normal costs for the year, a Trust expense assumption, a component for the level dollar amortization of the total UAAL and a mid-year contribution interest component, were \$11.4 million and \$11.1 million, respectively. The Commission's actual contributions to the Trust for Fiscal Year 2016 and Fiscal Year 2017 were \$28.143 million and \$28.176 million, respectively.

The Trust's financial statements are not included in the financial statements of the Commission. For additional information regarding the Benefits and the Trust, including funding status and actuarial methods and assumptions, see Note 11 to the Financial Statements.


Commission Compliance Department

In 2009, an Office of Inspector General (the "**OIG**") was created within the Commission to maintain integrity and efficiency at the Commission and to further maintain public confidence in the Commission. In 2012, the OIG merged into the newly created Compliance Department. The functions of the former OIG currently fall under the Compliance Department and the Special Investigations unit within the Compliance Department. The primary mission of the Compliance Department is developing, managing, and executing comprehensive audit and investigation programs that examine and promote the adequacy and effectiveness of the Commission's internal control system. The Compliance Department includes the office of Chief Compliance Officer and the departments of Toll Revenue Audit, Internal Audit Services, and Special Investigations. As

head of the department, the Chief Compliance Officer oversees all aspects of operations auditing, toll revenue auditing, and internal and external investigations, enforcement of Commission rules, regulations, policies and strategic planning, and the Commission's Code of Conduct. The Compliance Department has conducted numerous investigations of fraud, waste, abuse and misconduct that have resulted in the termination of Commission employees and a vendor contract. The Compliance Department, in response to the Advisory Committee's Report dated, October 21, 2014, has conducted Code of Conduct and Business Conduct Guidelines training to all Commission employees, construction contractors, and vendors, consultants and other business partners in the construction services sector. When appropriate, the Compliance Department refers cases to law enforcement authorities for possible criminal prosecution.

EXHIBIT I

PENNSYLVANIA TURNPIKE COMMISSION FISCAL YEAR 2018 TEN-YEAR CAPITAL PLAN¹

|  FY 2018 Ten Year Capital Plan (YOE) | | | | | | | | | | | | |
|--|---------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|----------------------|
| Program | Category | FY2018 | FY2019 | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 | FY2025 | FY2026 | FY2027 | Total FINAL PLAN |
| Highway | Roadway/Safety | 100,950,000 | 128,431,766 | 125,896,635 | 91,153,571 | 82,121,168 | 79,060,366 | 72,338,238 | 76,117,914 | 72,840,202 | 76,877,638 | 905,787,498 |
| Highway | Bridge, Tunnel & Misc Structure | 49,209,344 | 52,038,354 | 52,990,472 | 54,335,102 | 56,269,133 | 57,811,503 | 58,881,050 | 60,507,373 | 73,837,033 | 75,801,098 | 591,680,461 |
| Highway | Total Reconstruction | 177,786,025 | 208,057,443 | 232,951,195 | 218,870,815 | 175,496,162 | 192,836,140 | 207,874,688 | 301,383,197 | 297,415,814 | 348,134,114 | 2,360,805,593 |
| Highway | Interchanges | 125,995,000 | 38,707,953 | 22,211,102 | 8,655,532 | 69,975,432 | 74,117,311 | 76,088,832 | 0 | 0 | 0 | 415,751,162 |
| Highway | Highway Miscellaneous | 41,214,973 | 39,211,403 | 30,661,754 | 26,137,976 | 26,500,029 | 26,976,877 | 27,460,342 | 28,190,787 | 29,064,033 | 29,710,484 | 305,128,658 |
| Highway | Total | 495,155,342 | 466,446,919 | 464,711,159 | 399,152,996 | 410,361,925 | 430,802,197 | 442,643,150 | 466,199,271 | 473,157,080 | 530,523,333 | 4,579,153,372 |
| FEMO | Re-capitalization | 2,850,000 | 513,300 | 526,954 | 540,971 | 555,361 | 570,133 | 585,299 | 600,868 | 616,851 | 633,259 | 7,952,994 |
| FEMO | Sustainment | 16,180,000 | 26,260,428 | 12,625,813 | 11,338,747 | 12,939,901 | 13,284,103 | 14,808,057 | 15,372,779 | 17,255,182 | 17,731,251 | 157,796,261 |
| FEMO | Compliance | 3,000,000 | 3,079,800 | 3,161,723 | 3,245,825 | 3,332,163 | 3,420,799 | 3,511,792 | 3,605,206 | 3,701,104 | 3,799,554 | 33,857,966 |
| FEMO | New Energy Initiative | 2,148,180 | 1,565,565 | 1,238,341 | 1,271,281 | 1,305,097 | 1,339,813 | 1,375,452 | 1,412,039 | 1,449,599 | 1,488,159 | 14,593,527 |
| FEMO | Facilities Design | 6,930,000 | 11,780,235 | 21,473,367 | 11,062,852 | 16,549,745 | 22,833,833 | 12,086,418 | 17,124,728 | 24,242,234 | 14,090,012 | 158,173,424 |
| FEMO | Total | 31,108,180 | 43,199,328 | 39,026,197 | 27,459,675 | 34,682,268 | 41,448,681 | 32,367,018 | 38,115,620 | 47,264,970 | 37,742,234 | 372,414,171 |
| Fleet Equipment | Fleet Equipment | 8,538,750 | 18,478,800 | 18,970,336 | 18,393,006 | 18,882,259 | 19,384,528 | 19,900,156 | 20,429,500 | 20,972,925 | 21,530,805 | 185,481,064 |
| Technology | Functional Business Software | 9,580,300 | 10,394,325 | 10,091,165 | 10,359,590 | 10,635,155 | 10,918,050 | 11,208,470 | 11,506,616 | 11,811,458 | 12,115,510 | 108,620,639 |
| Technology | Infrastructure HW/SW | 4,919,700 | 5,646,300 | 4,215,630 | 4,327,766 | 4,442,885 | 4,561,065 | 4,682,390 | 4,806,941 | 4,934,806 | 5,066,072 | 47,603,555 |
| Technology | Toll Collection/Operations | 2,894,000 | 1,847,880 | 1,897,034 | 1,947,495 | 1,999,298 | 2,052,479 | 2,107,075 | 2,163,124 | 2,220,663 | 2,279,732 | 21,408,780 |
| Technology | Total | 17,394,000 | 17,888,505 | 16,203,829 | 16,634,851 | 17,077,338 | 17,531,595 | 17,997,935 | 18,476,680 | 18,966,926 | 19,461,314 | 177,632,973 |
| EN-00115 | Cashless Tolling Conversion | 17,094,000 | 16,220,280 | 22,290,145 | 70,142,268 | 71,308,298 | 62,999,715 | 65,213,982 | 42,901,950 | 61,944,150 | 17,097,992 | 447,212,779 |
| | Grand Total (PSEXP) | 569,290,272 | 562,233,832 | 561,201,665 | 531,782,795 | 552,312,087 | 572,166,715 | 578,122,241 | 586,123,021 | 622,306,052 | 626,355,678 | 5,761,894,359 |
| | Reimbursed Funds | 70,200,000 | 34,200,000 | 600,000 | 20,000,000 | 20,000,000 | 0 | 0 | 0 | 0 | 0 | 145,000,000 |
| | Grand Total (PSNET) | 499,090,272 | 528,033,832 | 560,601,665 | 511,782,795 | 532,312,087 | 572,166,715 | 578,122,241 | 586,123,021 | 622,306,052 | 626,355,678 | 5,616,894,359 |

¹ Capital plans from prior years back to Fiscal Year 2005-2006 are available on the Commission's website at

https://www.paturnpike.com/business/capital_plan.aspx (The information contained on such website link is not incorporated by reference in this Appendix A).

APPENDIX B

AUDITED 2017 AND 2016 FINANCIAL STATEMENTS

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PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania

Basic Financial Statements
Fiscal Years Ended May 31, 2017 and 2016
With Independent Auditor's Report

Prepared by:

Justin R. Simmons, Senior General Accountant
Christopher G. Will, Portfolio Manager
Catherine L. Sabo, Accounting Manager
Theodore A. Rusenko, Accounting and Financial Reporting Manager
Jamie L. May, Technical Accounting Manager
Anthony Q. Maun, Assistant CFO/Accounting and Budget



MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

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PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Basic Financial Statements
Fiscal Years Ended May 31, 2017 and 2016

TABLE OF CONTENTS

| | <u>Page(s)</u> |
|---|-----------------------|
| INDEPENDENT AUDITOR’S REPORT | 1–3 |
| Management’s Discussion and Analysis | 4–16 |
| BASIC FINANCIAL STATEMENTS | |
| Statements of Net Position | 17–18 |
| Statements of Revenues, Expenses, and Changes in Net Position | 19 |
| Statements of Cash Flows | 20–22 |
| Notes to Financial Statements | 23–88 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| Schedule of Commission’s Proportionate Share of Net Pension Liability | 89 |
| Schedule of Commission’s Contributions | 90 |
| Schedule of Funding Progress – Postemployment Healthcare Benefits | 91 |
| OTHER SUPPLEMENTARY INFORMATION | |
| <i>Section Information</i> | 92 |
| As of and for the Year Ended May 31, 2017 | |
| ▪ Schedule of Net Position | 93–94 |
| ▪ Schedule of Revenues, Expenses, and Changes in Net Position | 95 |
| ▪ Schedule of Cash Flows | 96–98 |
| As of and for the Year Ended May 31, 2016 | |
| ▪ Schedule of Net Position | 99–100 |

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Basic Financial Statements
Fiscal Years Ended May 31, 2017 and 2016

TABLE OF CONTENTS *(continued)*

| | <u>Page(s)</u> |
|---|-----------------------|
| ▪ Schedule of Revenues, Expenses, and Changes in Net Position | 101 |
| ▪ Schedule of Cash Flows | 102–104 |
| Schedules of Cost of Services Detail | 105 |



INDEPENDENT AUDITOR'S REPORT

The Commissioners
Pennsylvania Turnpike Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the Pennsylvania Turnpike Commission (the Commission), a component unit of the Commonwealth of Pennsylvania, as of and for the year ended May 31, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

1818 Market Street
Philadelphia, PA 19103
T +1 215 561 7300
F +1 215 569 8709
mitchelltitus.com



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of May 31, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As more fully explained in Note 9, the Commission has committed to making significant payments under an Amended Lease and Funding Agreement as required under the terms of Acts 44 and 89. The Commission's ability to make such payments is dependent on its continuing capability to issue bonds to fund such payments and ultimately to raise tolls sufficient to repay its bonded debt and current lease payments. Our opinion is not modified with respect to this matter.

Other Matters

Audit of Prior-Year Financial Statements

The 2016 financial statements were audited by other auditors and their report thereon, dated September 2, 2016, contained an unmodified opinion on those financial statements in accordance with accounting principles generally accepted in the United States of America. The 2016 Other Supplementary Information was subjected to the auditing procedures by the other auditors, applied in the audits of the basic financial statements and certain additional procedures and was found to be fairly stated, in all material respects, in relation to the 2016 basic financial statements as a whole.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of commission's proportionate share of net pension liability, the schedule of commission's contributions, and the schedule of funding progress – Postemployment healthcare benefits on pages 4 through 16 and pages 89 through 91 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The Section Information on pages 92 through 104 and the Schedules of Cost of Services Detail on page 105 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Section Information and Schedules of Cost of Services Detail are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information for 2017 has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Section Information and Schedules of Cost of Services Detail for 2017 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Mitchell Titus, LLP

September 6, 2017

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Management's Discussion and Analysis
May 31, 2017

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 years ended May 31, 2017 and 2016, which should be read in conjunction with the Commission's basic financial statements. Certain amounts presented in the prior period have been reclassified to conform to the current period financial statement presentation.

Overview of the Basic Financial Statements

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

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

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

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

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

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Management's Discussion and Analysis (*continued*)
May 31, 2017

Financial Analysis

Comparative Condensed Statements of Net Position

| | May 31 | | |
|--|----------------|----------------|----------------|
| | 2017 | 2016 | 2015 |
| | | (In Thousands) | |
| <i>Assets and deferred outflows of resources</i> | | | |
| Current assets | \$ 1,398,596 | \$ 1,273,754 | \$ 1,012,573 |
| Long-term investments | 843,616 | 935,770 | 822,550 |
| Capital assets, net of accumulated depreciation | 5,728,882 | 5,517,326 | 5,189,561 |
| Other assets | 159,666 | 155,908 | 149,275 |
| Total assets | 8,130,760 | 7,882,758 | 7,173,959 |
| Total deferred outflows of resources | 534,504 | 396,350 | 273,894 |
| Total assets and deferred outflows of resources | 8,665,264 | 8,279,108 | 7,447,853 |
| <i>Liabilities and deferred inflows of resources</i> | | | |
| Current liabilities | 913,350 | 740,063 | 697,388 |
| Debt, net of unamortized premium | 12,177,627 | 11,431,859 | 10,197,258 |
| Net pension liability | 379,173 | 346,946 | 296,271 |
| Other noncurrent liabilities | 246,896 | 269,409 | 247,041 |
| Total liabilities | 13,717,046 | 12,788,277 | 11,437,958 |
| Total deferred inflows of resources | 146,890 | 137,490 | 124,840 |
| Total liabilities and deferred inflows of resources | 13,863,936 | 12,925,767 | 11,562,798 |
| <i>Net position</i> | | | |
| Net investment in capital assets | (258,038) | (24,520) | 271,187 |
| Restricted for construction purposes | 330,048 | 332,920 | 269,098 |
| Restricted for debt service | 44,727 | 28,878 | 42,826 |
| Unrestricted | (5,315,409) | (4,983,937) | (4,698,056) |
| Total net position | \$ (5,198,672) | \$ (4,646,659) | \$ (4,114,945) |

The Commission's total net position decreased \$552.0 million and \$531.7 million for the fiscal years ended May 31, 2017 and 2016, respectively. The large decreases in net position in both fiscal years were largely due to the requirements of Act 44, Act 89 and the Amended Lease and Funding Agreement (Amended Funding Agreement) between the Commission and Pennsylvania Department of Transportation (PennDOT) and costs associated with the related debt. Please refer to Note 9, Commitments and Contingencies, of the financial statements and to the Events That Will Impact Financial Position section of this MD&A for additional information regarding Act 44, Act 89 and the Amended Funding Agreement between the Commission and PennDOT. See also Note 7, Debt, in reference to the related debt.

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

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Management's Discussion and Analysis (*continued*)
May 31, 2017

Financial Analysis (*continued*)

The Commission's total assets and deferred outflows of resources increased by \$386.2 million in fiscal year 2017. This 2017 increase is mostly related to an increase in capital assets of \$211.6 million and a \$138.2 million increase in deferred outflows of resources. The increase in capital assets is mostly related to capital asset additions of \$621.0 million, offset by assets transferred to PennDOT with a net book value of \$54.7 million and \$354.3 million of depreciation expense. The increase in deferred outflows of resources is primarily the result of refundings of debt. For additional information, see: Note 5, Capital Assets; Note 7, Debt; and the Capital Assets and Debt Administration section of this MD&A.

The Commission's total assets and deferred outflows of resources increased by \$831.3 million in fiscal year 2016. This 2016 increase is mostly related to an increase in cash and investments of \$368.7 million, increases in capital assets of \$327.8 million, and a \$122.5 million increase in deferred outflows of resources. The increase in capital assets is mostly related to capital asset additions of \$702.0 million, offset by assets transferred to PennDOT with a net book value of \$40.9 million and \$332.9 million of depreciation expense. The increase in deferred outflows of resources is primarily the result of refundings of debt and the December 31, 2015 GASB 68 actuarial valuation of the State Employees' Retirement System. For additional information, see: Note 4, Cash and Investments; Note 5, Capital Assets; Note 7, Debt; the Capital Assets and Debt Administration section of this MD&A; and Note 8, Retirement Benefits.

Total liabilities and deferred inflows of resources increased by \$938.2 million in fiscal year 2017 and by \$1,363.0 million in fiscal year 2016. The increase for both fiscal year 2017 and fiscal year 2016 were mainly related to the issuance of senior debt to finance the costs of various capital expenditures set forth in the Commission's current 10-year plan and the issuance of subordinate debt to finance the costs of making payments to PennDOT in accordance with Act 44, Act 89, and the Amended Funding Agreement. See Note 7, Debt, for additional information regarding the new issuances of debt.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
 Management's Discussion and Analysis (*continued*)
 May 31, 2017

Financial Analysis (*continued*)

| | Year ended May 31 | | |
|---|-----------------------|-----------------------|-----------------------|
| | 2017 | 2016 | 2015 |
| | | <i>(In Thousands)</i> | |
| <i>Operating</i> | | | |
| Operating revenues | \$ 1,134,396 | \$ 1,052,691 | \$ 949,735 |
| Cost of services | (517,103) | (471,132) | (459,780) |
| Depreciation | (354,343) | (332,941) | (337,664) |
| Operating income | 262,950 | 248,618 | 152,291 |
| <i>Nonoperating revenues (expenses)</i> | | | |
| Investment earnings | 14,225 | 29,069 | 17,502 |
| Other nonoperating revenues | 21,532 | 21,651 | 55,992 |
| Act 44 payments to PennDOT | (450,000) | (450,000) | (450,000) |
| Capital assets transferred to PennDOT | (54,724) | (40,937) | (4,499) |
| Interest and bond expense | (560,660) | (521,021) | (465,869) |
| Nonoperating expenses, net | (1,029,627) | (961,238) | (846,874) |
| Loss before capital contributions and special items | (766,677) | (712,620) | (694,583) |
| Capital contributions | 214,664 | 180,906 | 146,472 |
| Decrease in net position | (552,013) | (531,714) | (548,111) |
| Net position at beginning of year, before restatement | (4,646,659) | (4,114,945) | (3,300,455) |
| Cumulative effect of change in accounting principle | - | - | (266,379) |
| Net position at beginning of year, as restated ¹ | (4,646,659) | (4,114,945) | (3,566,834) |
| Net position at end of year | \$ (5,198,672) | \$ (4,646,659) | \$ (4,114,945) |

¹Beginning net position for fiscal year 2015 was restated (reduced by \$266.4 million) due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*.

For fiscal years ended May 31, 2017, and 2016, operating and nonoperating revenues totaled \$1,170.2 million and \$1,103.4 million, respectively, while operating and nonoperating expenses totaled \$1,936.8 million and \$1,816.0 million, respectively.

Total operating and nonoperating revenues for fiscal year 2017 were \$66.8 million or 6.1% higher than fiscal year 2016. This increase in revenue was mainly related to a \$80.9 million increase in fare revenues resulting from a January 2017 toll increase of 6.0% for both cash and E-ZPass customers and the full-year impact of the January 2016 toll increase of 6.0% for both cash and E-ZPass customers. In addition, total traffic volumes were up slightly, 0.7%, in fiscal year 2017 compared to fiscal year 2016.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Management's Discussion and Analysis (*continued*)
May 31, 2017

Financial Analysis (*continued*)

Total operating and nonoperating revenues for fiscal year 2016 were \$80.2 million, or 7.8% higher than fiscal year 2015. This increase in revenue was mainly related to a \$98.0 million increase in fare revenues resulting from a January 2016 toll increase of 6.0% for both cash and E-ZPass customers and the full-year impact of the January 2015 toll increase of 5.0% for both cash and E-ZPass customers. In addition, total traffic volumes were up approximately 3.4% in fiscal year 2016 compared to fiscal year 2015.

Total operating and nonoperating expenses for fiscal year 2017 were \$120.8 million higher than fiscal year 2016 primarily due to increases in cost of services of \$46.0 million, increases in interest and bond expenses of \$39.6 million related to the increase in debt (see Note 7, Debt), an increase in depreciation expense of \$21.4 million and an increase in capital assets transferred to PennDOT of \$13.8 million. The increase in cost of services is mainly related to an increase in maintenance costs of \$12.6 million to maintain the System, an increase in employee benefits due to an increase in pension expense of \$10.7 million interest and an increase in professional fees and services of \$7.1 million.

Total operating and nonoperating expenses for fiscal year 2016 were \$98.2 million higher than fiscal year 2015, primarily due to increases in interest and bond expenses of \$55.2 million related to the increase in debt (see Note 7, Debt) and an increase of \$36.4 million in capital assets transferred to PennDOT.

Capital contributions increased by \$33.8 million in fiscal year 2017 and by \$34.4 million in fiscal year 2016, primarily due to increases in reimbursements from other governments (see Note 2).

Capital Assets and Debt Administration

Capital Assets

Capital assets consist of land and intangible assets (right-of-way easements), buildings, improvements, equipment, infrastructure, and assets under construction. Infrastructure assets are typically items that are immovable such as highways, bridges and tunnels. The Commission's investment in capital assets at May 31, 2017 amounted to \$11.8 billion of gross asset value with accumulated depreciation of \$6.1 billion, leaving a net book value of \$5.7 billion. The net book value of capital assets at May 31, 2016 was \$5.5 billion. Capital assets represented 66.1% and 66.6% of the Commission's total assets and deferred outflows of resources at May 31, 2017 and May 31, 2016, respectively.

Assets under construction at the end of fiscal year 2017 were \$1,357.0 million, which was \$26.4 million more than in fiscal year 2016. Assets under construction at the end of fiscal year 2016 were \$1,330.6 million, which was \$373.6 million more than in fiscal year 2015. In fiscal year 2017, \$533.8 million of constructed capital assets were completed, which was \$275.4 million more than the \$258.4 million of constructed capital assets completed in fiscal year 2016. In addition to constructed capital assets, the Commission had capital assets additions of approximately \$60.9 million and \$70.0 million in fiscal years 2017 and 2016, respectively, related to purchases, capital contributions and capitalized interest.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Management's Discussion and Analysis (*continued*)
May 31, 2017

Financial Analysis (*continued*)

Capital Assets and Debt Administration (*continued*)

Capital Assets (continued)

The highest priority highway program for the Commission is the ongoing full depth roadway total reconstruction of the east/west Turnpike Mainline and Northeast Extension. This work includes the reconstruction and widening of the roadway, the widening of the median, replacement of both Mainline and overhead bridges as well as many safety enhancements. To date, approximately 124 miles of total reconstruction have been completed. Currently, approximately 20 miles are in construction and approximately 90 miles are in design. Also, the Commission completed another six miles of full depth roadway total reconstruction, 12 miles of roadway resurfacing and three interchange resurfacings during fiscal year 2017, helping to maintain a quality-riding surface with a Turnpike System-wide median IRI (International Roughness Index) of 73, which is rated as good.

The Commission completely replaced ten aging original bridges with new bridges, rehabilitated another nine bridges, eliminated two bridges, redecked one bridge and completely painted six bridges. Of the Commission's bridges, 3.6% are rated structurally deficient which is below the national average of 11.4%. All 31 bridges currently rated structurally deficient are either in construction or design for rehabilitation.

The Commission also constructed 13 new retaining walls in calendar year 2016.

Facility projects continue to focus on environmental and safety compliance, and on the maintenance and repair of existing buildings including HVAC, electrical and plumbing systems based on deficiencies identified during facility condition assessments. The Commission completed construction on the new Somerset Materials Testing Laboratory in May 2016. The Commission completed construction of the new Neshaminy Falls Toll Facility in December of 2015. Design of a renovation to the Kegg Maintenance Facility is scheduled to be complete in the fall of 2017, and construction is anticipated to be completed in November 2018. Design for a new District 1 Maintenance Facility to support the Southern Beltway is underway and is scheduled to be completed in the spring of 2018.

A public CNG Fueling Station opened in October 2014 at the New Stanton Service Plaza which included three fueling dispensers – one for passenger vehicles, one for commercial trucks, and one located outside the plaza gate for use by off-Turnpike vehicles. Since opening, over 268,000 gallons of CNG have been sold. Currently, there are five services plazas that have electric vehicle (EV) charging systems available to users on the Turnpike System. They are the Oakmont, New Stanton, Bowmansville, Peter J. Camiel and King of Prussia service plazas.

The Mon/Fayette Expressway is open to traffic from the Pennsylvania/West Virginia line to PA 51 in Jefferson Hills Borough, a distance of 53 miles. The preliminary design for the remainder of the Mon/Fayette Expressway project, extending from PA Route 51 to Interstate Route 376 in Pittsburgh, has been completed. Additional funding is required to complete the design, right-of-way and construction of this section.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Management's Discussion and Analysis (*continued*)
May 31, 2017

Financial Analysis (*continued*)

Capital Assets and Debt Administration (*continued*)

Capital Assets (*continued*)

The Southern Beltway is a series of three independent projects that extend from the Mon/Fayette Expressway near Finleyville to Pennsylvania Route 60 (PA 60) at the Pittsburgh International Airport. One project constructed as part of the Southern Beltway, a six-mile section of toll road in Allegheny County that connects PA 60 to U.S. Route 22 (U.S. 22), is in operation. The project from U.S. 22 to Interstate 79 (I-79) has started construction. When completed, the entire Southern Beltway will utilize cashless tolling. The project from I-79 to Mon/Fayette Expressway has completed the environmental phase and is inactive until additional funding is identified.

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

The PA Turnpike/I-95 Interchange Project involves the construction of a direct interchange connecting the Turnpike Mainline to I-95. The project also includes tolling modifications and reconstruction and widening of the interstates.

The first phase of the Interchange Project includes preparatory work and construction of a portion of the interchange between I-95 and the Turnpike Mainline, including northbound I-95 to the eastbound Turnpike Mainline and southbound I-95 to the westbound Turnpike Mainline, and is currently under construction. This phase included construction of a new mainline toll plaza and a cashless tolling plaza westbound, both of which opened in January 2016. Construction will continue on this phase through 2018. The second phase will include the completion of the reconstruction and widening of the remaining interchange connectors. The third phase will be the construction of an additional bridge over the Delaware River.

The above paragraphs describe the changes in capital assets occurring during the fiscal years ended May 31, 2017 and 2016. Please refer to the capital assets section in the notes to the financial statements (Note 5) for more detailed capital asset schedules.

Debt Administration – Mainline

In June 2015, the Commission issued \$385,095,000 2015 Series A-1 Senior Bonds at a fixed rate with a maturity date of December 1, 2045. The 2015 Series A-1 Senior Bonds were issued to provide funds to finance the costs of various capital expenditures and advance refund all of the Commission's 2006 Series A Senior Revenue Bonds and for paying the cost of issuing the 2015 Series A-1 Senior Bonds.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Management's Discussion and Analysis (*continued*)
May 31, 2017

Financial Analysis (*continued*)

Capital Assets and Debt Administration (*continued*)

Debt Administration – Mainline (*continued*)

In June 2015, the Commission issued \$115,635,000 2015 Series A-2 Senior Bonds at a variable rate with a maturity date of December 1, 2021. The 2015 Series A-2 Senior Bonds were issued primarily for the current refunding of existing variable rate debt which included the Commission's 2013 Series B Variable Rate Revenue Bonds (\$65,155,000), the Commission's 2014 Series B-1 Variable Rate Revenue Bonds (\$15,080,000) and the Commission's 2014 Series B-2 Variable Rate Revenue Bonds (\$34,920,000). The bonds were also issued for payment of the costs of issuance for the 2015 Series A-2 Senior Bonds.

In October 2015, the Commission issued \$192,215,000 2015 Series B Subordinate Bonds at a fixed rate with a maturity date of December 1, 2045. The 2015 Series B Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44 and Act 89 and for paying the cost of issuing the 2015 Series B Subordinate Bonds.

In December 2015, the Commission issued \$304,005,000 2015 Series B Senior Bonds at a fixed rate with a maturity date of December 1, 2045. The 2015 Series B Senior Bonds were issued to provide funds to finance the costs of various capital expenditures set forth in the Commission's current or any prior 10-year capital plan and for paying the cost of issuing the 2015 Series B Senior Bonds.

In February 2016, the Commission issued \$360,990,000 2016 Series Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of June 1, 2038. The 2016 Series Subordinate Revenue Refunding Bonds were issued to provide funds for the advance refunding of a portion of the Commission's 2008 Series A-1 Subordinate Revenue Bonds (\$29,025,000), 2008 Series B-1 Subordinate Revenue Bonds (\$52,390,000), 2008 Series C-1 Subordinate Revenue Bonds (\$189,875,000), 2009 Series A Subordinate Revenue Bonds (\$23,470,000), 2009 Series B Subordinate Revenue Bonds (\$76,435,000), 2009 Series D Subordinate Revenue Bonds (\$9,975,000) and for paying the cost of issuing the 2016 Series Subordinate Revenue Refunding Bonds.

In March 2016, the Commission issued a \$150,000,000 2016 EB5 Loan at a fixed rate with a maturity date of March 18, 2021. This amount is comprised of the 1st-3rd Tranches under the Immigrant Investor Program loan agreement. The 2016 EB5 Loan was issued to fund a portion of the I-95 Interchange Project and for paying the cost of issuing the 2016 EB5 Loan.

In April 2016, the Commission issued \$203,700,000 2016 Series A-1 Subordinate Bonds at a fixed rate with a maturity date of December 1, 2046. The 2016 Series A-1 Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44 and Act 89 and for paying the cost of issuing the 2016 Series A-1 Subordinate Bonds.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Management's Discussion and Analysis (*continued*)
May 31, 2017

Financial Analysis (*continued*)

Capital Assets and Debt Administration (*continued*)

Debt Administration – Mainline (*continued*)

In April 2016, the Commission issued \$185,455,000 2016 Series A-2 Subordinate Bonds at a fixed rate with a maturity date of June 1, 2033. The 2016 Series A-2 Subordinate Bonds were issued to provide funds for the advance refunding of a portion of the Commission's 2008 Series A-1 Subordinate Revenue Bonds (\$39,655,000), 2008 Series B-1 Subordinate Revenue Bonds (\$61,860,000), 2009 Series A Subordinate Revenue Bonds (\$27,275,000), 2009 Series B Subordinate Revenue Bonds (\$69,735,000) and for paying the cost of issuing the 2016 Series A-2 Subordinate Bonds.

In May 2016, the Commission issued a \$50,000,000 2016 EB5 Loan at a fixed rate with a maturity date of May 12, 2021. This amount is the 4th Tranche under the Immigrant Investor Program loan agreement. The 2016 EB5 Loan was issued to fund a portion of the I-95 Interchange Project and for paying the cost of issuing the 2016 EB5 Loan.

In June 2016, the Commission issued \$447,850,000 2016 Series A-1 Senior Bonds at a fixed rate with a maturity date of December 1, 2046. The 2016 Series A-1 Senior Bonds were issued primarily to provide funds for various capital expenditures set forth in the Commission's current or any prior 10-year capital plan, including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and the rehabilitation of certain interchanges. The bonds were also issued for payment of the costs of issuance for the 2016 Series A-1 Senior Bonds.

In June 2016, the Commission issued \$140,590,000 2016 Series A-2 Senior Bonds at a variable rate with a maturity date of December 1, 2018. The 2016 Series A-2 Senior Bonds were issued primarily for the current refunding of existing variable rate debt, which included the Commission's 2012 Series B Variable Rate Revenue Bonds (\$70,060,000), the Commission's 2014 Series B-1 Variable Rate Revenue Bonds (\$35,050,000) and the Commission's 2014 Series B-2 Variable Rate Revenue Bonds (\$34,950,000). The bonds were also issued for payment of the costs of issuance for the 2016 Series A-2 Senior Bonds.

In June 2016, the Commission issued \$649,545,000 2016 Second Series Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of June 1, 2039. The 2016 Second Series Subordinate Revenue Refunding Bonds were issued to provide funds for the advance refunding of a portion of the Commission's 2008 Series A-1 Subordinate Revenue Bonds (\$105,065,000), 2008 Series B-1 Subordinate Revenue Bonds (\$50,665,000), 2009 Series A Subordinate Revenue Bonds (\$43,355,000), 2009 Series B Subordinate Revenue Bonds (\$288,185,000), 2009 Series D Subordinate Revenue Bonds (\$16,575,000), 2010 Series B-1 Subordinate Revenue Bonds (\$11,850,000), 2010 Series B-2 Subordinate Revenue Bonds (\$87,475,000), 2010 Series C-2 Subordinate Revenue Bonds (\$17,670,000), 2011 Series A Subordinate Revenue Bonds (\$53,375,000), and for paying the cost of issuing the 2016 Second Series Subordinate Revenue Refunding Bonds.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Management's Discussion and Analysis (*continued*)
May 31, 2017

Financial Analysis (*continued*)

Capital Assets and Debt Administration (*continued*)

Debt Administration – Mainline (*continued*)

In October 2016, the Commission issued \$255,455,000 2016 Third Series Sub-Series A Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2041. The 2016 Third Series Sub-Series A Subordinate Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the Commission's 2009 Series A Subordinate Revenue Bonds (\$20,990,000), 2009 Series B Subordinate Revenue Bonds (\$112,560,000), 2009 Series D Subordinate Revenue Bonds (\$75,700,000), 2010 Series B-2 Subordinate Revenue Bonds (\$35,545,000), 2011 Series A Subordinate Revenue Bonds (\$7,925,000), and for paying the cost of issuing the 2016 Third Series Sub-Series A Subordinate Revenue Refunding Bonds.

In October 2016, the Commission issued \$75,755,000 2016 Third Series Sub-Series B Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2025. The 2016 Third Series Sub-Series B Subordinate Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the Commission's 2008 Series A-2 Subordinate Revenue Bonds (\$18,905,000), 2008 Series B-2 Subordinate Revenue Bonds (\$47,785,000) and for paying the cost of issuing the 2016 Third Series Sub-Series B Subordinate Revenue Refunding Bonds.

In October 2016, the Commission issued \$79,865,000 2016 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2036. The 2016 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the Commission's 2010 Series A-2 Motor License Fund-Enhanced Subordinate Revenue Bonds (\$16,520,000), 2010 Series B-2 Motor License Fund-Enhanced Subordinate Revenue Bonds (\$9,705,000), 2011 Series A Motor License Fund-Enhanced Subordinate Revenue Bonds (\$56,860,000) and for paying the cost of issuing 2016 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds.

In January 2017, the Commission issued \$284,275,000 2017 Series A Subordinate Revenue Bonds at a fixed rate with a maturity date of December 1, 2046. The 2017 Series A Subordinate Revenue Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44 and Act 89, including reimbursing the Commission for certain payments previously made by the Commission to PennDOT and for paying the cost of issuing the 2017 Series A Subordinate Revenue Bonds.

In May 2017, the Commission issued \$291,850,000 2017 First Series Subordinate Revenue Refunding Bonds at a variable rate with a maturity date of December 1, 2041. The 2017 First Series Subordinate Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the Commission's 2009 Series A Subordinate Revenue Bonds (\$71,475,000) and 2009 Series D Subordinate Revenue Bonds (\$215,130,000) and for paying the cost of issuing the 2017 First Series Subordinate Revenue Refunding Bonds.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Management's Discussion and Analysis (*continued*)
May 31, 2017

Financial Analysis (*continued*)

Capital Assets and Debt Administration (*continued*)

Debt Administration – Oil Company Franchise Tax

In September 2016, the Commission issued \$198,595,000 2016 Series A Oil Franchise Tax Senior Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2032. The 2016 Series A Oil Franchise Tax Senior Revenue Refunding Bonds were issued to provide funds for the advanced refunding of the Commission's 2003 Series C Oil Franchise Tax Senior Revenue Bonds (\$160,000,000), the advance refunding of a portion of 2009 Series A-2 Oil Franchise Tax Senior Revenue Bonds (\$2,120,000), the current refunding of 2006 Series A Oil Franchise Tax Senior Revenue Bonds (\$66,025,000) and for paying the cost of issuing the 2016 Series A Oil Franchise Tax Senior Revenue Refunding Bonds.

In September 2016, the Commission issued \$115,395,000 2016 Series B Oil Franchise Tax Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2032. The 2016 Series B Oil Franchise Tax Subordinate Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the 2009 Series D-2 Oil Franchise Tax Subordinate Revenue Bonds (\$860,000), the current refunding of the 2006 Series B Oil Franchise Tax Subordinate Revenue Bonds (\$122,205,000), the current refunding of 2003 Series B Oil Franchise Tax Subordinate Revenue Bonds (\$16,440,000) and for paying the cost of issuing the 2016 Series B Oil Franchise Tax Subordinate Revenue Refunding Bonds.

Debt Administration – Motor License Registration Fee

In October 2015, the Commission converted \$231,425,000 Registration Fee Revenue Refunding Bonds Series B, C, and D of 2005 from a weekly rate mode to an index rate mode through a direct placement with DNT Asset Trust.

The preceding paragraphs describe debt activity occurring during the fiscal years ended May 31, 2017 and 2016. Please refer to the debt and commitments and contingencies sections in the notes to the financial statements (Notes 7 and 9) for more detailed schedules and descriptions of long-term debt and swap activity.

Events That Will Impact Financial Position

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

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Management's Discussion and Analysis (*continued*)
May 31, 2017

Events That Will Impact Financial Position (*continued*)

The Funding Agreement also granted the Commission the option to lease the portion of Interstate 80 (I-80) located in the Commonwealth from PennDOT upon, among other things, the approval of the Federal Highway Administration (FHWA) of the conversion of such portion into a toll road (the Conversion). The Conversion was not approved by FHWA and neither the Commission nor PennDOT appealed the decision. The Commission did not exercise its option to lease such portion of I-80, and the period during which the Commission could exercise its option under the Funding Agreement lapsed on October 14, 2010 without the Commission effectuating Conversion or having the ability to do so in the future. Under existing law, including Act 89, all legal, financial and operational responsibility for I-80 remains with PennDOT.

Pursuant to Act 44 and the Funding Agreement, because the Conversion did not occur, the Commission was obligated to make scheduled annual payments, payable in equal quarterly installments, of \$450 million to PennDOT through 2057 with \$200 million of the scheduled annual payment supporting road and bridge projects and \$250 million supporting transit projects throughout the Commonwealth. See paragraphs below as to subsequent changes to such annual payments.

On November 25, 2013, Act 89 was enacted providing substantial revision to the Commission's transportation funding obligations under Act 44 and authorized the Commission and PennDOT to immediately amend the Funding Agreement to reflect the statutory provisions of Act 89. On April 4, 2014, the Commission and PennDOT executed Amendment Number One to the Lease and Funding Agreement (the *Act 89 Amendment* and together with the Act 44 Funding Agreement, the *Amended Funding Agreement*). The Amended Funding Agreement terminates on October 14, 2057. In accordance with Act 89 and the Amended Funding Agreement, the Commission's aggregate annual payment to PennDOT for fiscal year 2014 through fiscal year 2022 is \$450 million and, in accordance with Act 89, the Commission must pay at least \$30 million of such amount from current revenues. Commencing in fiscal year 2023 through the term of the Amended Funding Agreement, the Commission's aggregate annual payment to PennDOT is \$50 million, which shall be paid from then current revenues.

The provisions of Act 44 and the Funding Agreement require that the Commission provide a financial plan to the Secretary of the Budget of the Commonwealth on or before June 1 of each year that describes the Commission's proposed operating and capital expenditures, borrowings, liquidity and other financial management covenants and policies, estimated toll rates and all other revenue and expenditures for the ensuing fiscal year. Act 44 provides that the financial plan shall demonstrate that the operation of the Commission can reasonably be anticipated to result in having sufficient funds to make payments due to PennDOT pursuant to the Funding Agreement and Act 44 during the ensuing and future fiscal years. It is important to note that the financial plan does not cover the funding needs for the Mon/Fayette or the Southern Beltway projects.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Management's Discussion and Analysis (*continued*)
May 31, 2017

Events That Will Impact Financial Position (*continued*)

On June 1, 2017, the Commission submitted its financial plan for fiscal year 2018 (the Financial Plan). The Financial Plan incorporates the Commission's adopted Ten Year Capital Plan, which provides for approximately \$5.6 billion, net of federal reimbursements, in capital spending over the period from fiscal year 2018 through the fiscal year 2027. The Capital Plan enables the Commission to undertake a number of capital improvements and to pursue new initiatives to maintain and improve the Turnpike System ensuring that it remains in a state of good repair. The Financial Plan indicates that in fiscal year 2017 the Commission fully met its Act 44 obligations and progressed with its Capital Plan. Given the ongoing and moderate recovery of both the national and state economies, the Commission plans to continue the cost containment and efficiency measures it implemented within the past few years. These measures, together with future toll increases, are expected to allow the Commission to meet its financial covenants, Act 44 and Act 89 obligations, and capital needs during fiscal year 2018.

The Financial Plan concludes that the Commission will continue to meet all of its indenture covenants and all of its other obligations through fiscal year 2057. However, as a forward-looking report, the Financial Plan makes certain assumptions, including future toll increases, to reach its conclusion that the financial covenants, Act 44 and Act 89 obligations and capital needs will be met beyond fiscal year 2017. Key among these assumptions is the Commission's ability to raise tolls throughout the Turnpike System. The Financial Plan reflects the full year effects of the January 2017 toll increase and the partial year impacts of a January 2018 toll increase. The Financial Plan assumes the \$450 million reduced level of funding obligations required by Act 44 and Act 89 through fiscal year 2022 and the \$50 million funding level from fiscal year 2023 through fiscal year 2057. No assurances can be made by the Commission with respect to the assumptions made or conclusions reached in the Financial Plan. A complete copy of the Financial Plan is available on the Commission's website.

The preceding paragraphs provide a brief overview of Act 44 and Act 89 and their requirements. Please refer to the commitments and contingencies section in the notes to the financial statements (Note 9) for additional information regarding the Commission's commitments under the Amended Funding Agreement. Furthermore, legislation may be introduced that could affect the Commission and its obligations pursuant to Act 44 and Act 89. However, the Commission cannot predict what other legislation may be considered by the General Assembly during the 2017-2018 or future legislative sessions or if any other proposals or initiatives may lead to the adoption of legislation that may affect the Commission.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Statements of Net Position

May 31, 2017 and 2016

(in thousands)

| | <u>2017</u> | <u>2016</u> |
|---|----------------------------|----------------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | |
| <i>Current assets</i> | | |
| Cash and cash equivalents | \$ 215,949 | \$ 169,248 |
| Short-term investments | 67,764 | 40,798 |
| Accounts receivable | 69,181 | 57,257 |
| Accrued interest receivable | 1,268 | 1,457 |
| Inventories | 18,973 | 20,492 |
| <i>Restricted current assets</i> | | |
| Cash and cash equivalents | 701,841 | 805,047 |
| Short-term investments | 303,421 | 165,181 |
| Accounts receivable | 16,686 | 11,271 |
| Accrued interest receivable | 3,513 | 3,003 |
| Total current assets | <u>1,398,596</u> | <u>1,273,754</u> |
| <i>Noncurrent assets</i> | | |
| <i>Long-term investments</i> | | |
| Long-term investments unrestricted | 278,202 | 279,926 |
| Long-term investments restricted | 565,414 | 655,844 |
| Total long-term investments | <u>843,616</u> | <u>935,770</u> |
| <i>Capital assets not being depreciated</i> | | |
| Land and intangibles | 359,210 | 333,934 |
| Assets under construction | 1,356,951 | 1,330,627 |
| <i>Capital assets being depreciated</i> | | |
| Buildings | 978,186 | 968,902 |
| Improvements other than buildings | 121,137 | 119,256 |
| Equipment | 638,300 | 619,779 |
| Infrastructure | 8,380,745 | 7,908,360 |
| Total capital assets before accumulated depreciation | 11,834,529 | 11,280,858 |
| Less: Accumulated depreciation | <u>6,105,647</u> | <u>5,763,532</u> |
| Total capital assets after accumulated depreciation | 5,728,882 | 5,517,326 |
| <i>Other assets</i> | | |
| Prepaid bond insurance costs | 5,377 | 9,788 |
| OPEB asset | 122,542 | 113,930 |
| Other assets | 31,747 | 32,190 |
| Total other assets | <u>159,666</u> | <u>155,908</u> |
| Total noncurrent assets | <u>6,732,164</u> | <u>6,609,004</u> |
| Total assets | 8,130,760 | 7,882,758 |
| Deferred outflows of resources from hedging derivatives | 106,825 | 133,791 |
| Deferred outflows of resources from refunding bonds | 343,320 | 196,278 |
| Deferred outflows of resources from pensions | 84,359 | 66,281 |
| Total deferred outflows of resources | <u>534,504</u> | <u>396,350</u> |
| Total assets and deferred outflows of resources | <u><u>\$ 8,665,264</u></u> | <u><u>\$ 8,279,108</u></u> |

The accompanying notes are an integral part of these financial statements.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Statements of Net Position (*continued*)

May 31, 2017 and 2016

(in thousands)

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-----------------------|
| LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | | |
| <i>Current liabilities</i> | | |
| Accounts payable and accrued liabilities | \$ 449,301 | \$ 409,529 |
| Current portion of debt | 391,375 | 262,690 |
| Unearned Income | 72,674 | 67,844 |
| Total current liabilities | <u>913,350</u> | <u>740,063</u> |
| <i>Noncurrent liabilities</i> | | |
| Debt, less current portion, net of unamortized premium of \$808,031 and \$514,396 in 2017 and 2016, respectively | 12,177,627 | 11,431,859 |
| Net pension liability | 379,173 | 346,946 |
| Other noncurrent liabilities | 246,896 | 269,409 |
| Total noncurrent liabilities | <u>12,803,696</u> | <u>12,048,214</u> |
| Total liabilities | <u>13,717,046</u> | <u>12,788,277</u> |
| Deferred inflows of resources from hedging derivatives | 2,700 | - |
| Deferred inflows of resources from service concession arrangements | 122,694 | 124,028 |
| Deferred inflows of resources from refunding bonds | 3,207 | 1,269 |
| Deferred inflows of resources from pensions | 18,289 | 12,193 |
| Total deferred inflows of resources | <u>146,890</u> | <u>137,490</u> |
| Total liabilities and deferred inflows of resources | <u>13,863,936</u> | <u>12,925,767</u> |
| NET POSITION | | |
| Net investment in capital assets | (258,038) | (24,520) |
| Restricted for construction purposes | 330,048 | 332,920 |
| Restricted for debt service | 44,727 | 28,878 |
| Unrestricted | (5,315,409) | (4,983,937) |
| Total net position | <u>\$ (5,198,672)</u> | <u>\$ (4,646,659)</u> |

The accompanying notes are an integral part of these financial statements.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended May 31, 2017 and 2016
(in thousands)

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-----------------------|
| <i>Operating revenues</i> | | |
| Fares - net of discounts of \$3,915 and \$1,505 for the years ended May 31, 2017 and 2016, respectively | \$ 1,111,061 | \$ 1,030,115 |
| Other | <u>23,335</u> | <u>22,576</u> |
| Total operating revenues | 1,134,396 | 1,052,691 |
| <i>Operating expenses</i> | | |
| Cost of services | 517,103 | 471,132 |
| Depreciation | <u>354,343</u> | <u>332,941</u> |
| Total operating expenses | <u>871,446</u> | <u>804,073</u> |
| Operating income | 262,950 | 248,618 |
| <i>Nonoperating revenues (expenses)</i> | | |
| Investment earnings | 14,225 | 29,069 |
| Other nonoperating revenues | 21,532 | 21,651 |
| Act 44 and Act 89 payments to PennDOT | (450,000) | (450,000) |
| Capital assets transferred to PennDOT | (54,724) | (40,937) |
| Interest and bond expense | <u>(560,660)</u> | <u>(521,021)</u> |
| Nonoperating expenses, net | <u>(1,029,627)</u> | <u>(961,238)</u> |
| Loss before capital contributions | (766,677) | (712,620) |
| Capital contributions | <u>214,664</u> | <u>180,906</u> |
| Decrease in net position | (552,013) | (531,714) |
| Net position at beginning of year | <u>(4,646,659)</u> | <u>(4,114,945)</u> |
| Net position at end of year | <u>\$ (5,198,672)</u> | <u>\$ (4,646,659)</u> |

The accompanying notes are an integral part of these financial statements.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Statements of Cash Flows

Years Ended May 31, 2017 and 2016

(in thousands)

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customer tolls and deposits | \$ 1,117,714 | \$ 1,036,742 |
| Cash payments for goods and services | (328,522) | (301,972) |
| Cash payments to employees | (158,134) | (161,969) |
| Cash received from other operating activities | 8,926 | 12,312 |
| Net cash provided by operating activities | <u>639,984</u> | <u>585,113</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sales and maturities of investments | 4,841,067 | 3,210,832 |
| Interest received on investments | 22,255 | 22,636 |
| Purchase of investments | (4,910,891) | (3,249,460) |
| Net cash used in by investing activities | <u>(47,569)</u> | <u>(15,992)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital grants received from other governments | 55,265 | 33,497 |
| Proceeds from Motor License Registration fees | 28,000 | 28,000 |
| Proceeds from Oil Company Franchise Tax | 120,754 | 121,130 |
| Construction and acquisition of capital assets | (599,083) | (687,332) |
| Proceeds from sale of capital assets | 993 | 1,148 |
| Payments for bond and swap expenses | (4,337) | (5,188) |
| Payments for debt refundings | (525,419) | (233,170) |
| Payments for debt maturities | (68,200) | (80,865) |
| Interest paid on debt | (270,070) | (234,357) |
| Interest subsidy from Build America Bonds | 20,843 | 20,864 |
| Swap suspension payments received | - | 4,800 |
| Proceeds from debt issuances | 1,055,718 | 1,004,735 |
| Draw on Stand by Purchase Agreement | - | 231,430 |
| Paid Stand by Purchase Agreement | - | (231,430) |
| Net cash used in capital and related financing activities | <u>(185,536)</u> | <u>(26,738)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Cash payments to PennDOT | (450,000) | (450,000) |
| Payments for bond and swap expenses | (8,128) | (5,046) |
| Payments for debt refundings | (1,549,690) | (579,695) |
| Payments for debt maturities | (54,430) | (57,765) |
| Interest paid on debt | (224,231) | (201,716) |
| Proceeds from debt issuances | 1,823,095 | 942,360 |
| Net cash used in noncapital financing activities | <u>(463,384)</u> | <u>(351,862)</u> |
| (Decrease) increase in cash and cash equivalents | (56,505) | 190,521 |
| Cash and cash equivalents at beginning of year | <u>974,295</u> | <u>783,774</u> |
| Cash and cash equivalents at end of year | <u>\$ 917,790</u> | <u>\$ 974,295</u> |

The accompanying notes are an integral part of these financial statements.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Statements of Cash Flows *(continued)*
Years Ended May 31, 2017 and 2016
(in thousands)

| | <u>2017</u> | <u>2016</u> |
|---|--------------------------|--------------------------|
| <i>Reconciliation of operating income to net cash provided by operating activities</i> | | |
| Operating income | \$ 262,950 | \$ 248,618 |
| <i>Adjustments to reconcile operating income to net cash provided by operating activities</i> | | |
| Depreciation | 354,343 | 332,941 |
| <i>Change in operating assets and liabilities</i> | | |
| Accounts receivable | (11,924) | (10,505) |
| Inventories | 1,520 | (1,684) |
| Other assets | (8,606) | (9,008) |
| Deferred outflows of resources from pensions | (18,078) | (45,203) |
| Accounts payable and accrued liabilities | 17,042 | 9,482 |
| Net pension liability | 32,227 | 50,675 |
| Other noncurrent liabilities | 4,414 | 288 |
| Deferred inflows of resources from pensions | 6,096 | 9,509 |
| Net cash provided by operating activities | <u>\$ 639,984</u> | <u>\$ 585,113</u> |
| <i>Reconciliation of cash and cash equivalents to the statements of net position</i> | | |
| Cash and cash equivalents | \$ 215,949 | \$ 169,248 |
| Restricted cash and cash equivalents | 701,841 | 805,047 |
| Total cash and cash equivalents | <u>\$ 917,790</u> | <u>\$ 974,295</u> |

The accompanying notes are an integral part of these financial statements.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Statements of Cash Flows (*continued*)

Years Ended May 31, 2017 and 2016

Noncash Activities

The Commission recorded a net increase of \$9.5 million and a net decrease of \$4.5 million in the fair value of its investments for the years ended May 31, 2017 and 2016, respectively.

The Commission recorded \$34.8 million and \$17.6 million for the amortization of bond premiums for the years ended May 31, 2017 and 2016, respectively.

As indicated in Note 7 (Debt), the Commission refunded various bonds in both fiscal years 2017 and 2016. The fiscal year 2017 refundings resulted in an \$8.1 million reclassification from bond premiums (discounts) to deferred outflows of resources from refunding bonds and a \$3.1 million reclassification from bond premiums (discounts) to deferred inflows of resources from refundings. The fiscal year 2016 refundings resulted in a \$1.1 million reclassification from bond premiums (discounts) to deferred outflows of resources from refunding bonds. Additionally, the Commission recorded \$36.4 million and \$19.9 million in expenses for amortization of deferred outflows/inflows of resources from refunding bonds for the years ended May 31, 2017 and 2016, respectively.

The Commission recorded \$4.6 million and \$3.9 million in expenses for amortization of prepaid bond insurance costs for the years ended May 31, 2017 and 2016, respectively.

The Commission recorded an interest expense reduction of \$3.1 million and \$2.4 million for the years ended May 31, 2017 and 2016, respectively, related to GASB 53 entries.

The Commission recognized total capital contributions of \$214.7 million for fiscal year ended May 31, 2017. Cash received of \$204.0 million for fiscal year ended May 31, 2017 is reported in the capital and related financing activities of this statement. The \$10.7 million difference between capital contributions and cash received is the result of a \$5.5 million increase in receivables related to these capital contributions and a \$5.2 million noncash capital contribution related to capital assets provided by service plaza operators. The Commission recognized total capital contributions of \$180.9 million for fiscal year ended May 31, 2016. Cash received of \$182.6 million for fiscal year ended May 31, 2016 is reported in the capital and related financing activities of this statement. The \$1.7 million difference between capital contributions and cash received is the result of a \$6.9 million decrease in receivables related to these capital contributions offset by a \$5.2 million noncash capital contribution related to capital assets provided by service plaza operators. The Commission entered into agreements with a food and fuel provider to totally reconstruct the service plazas; the service plaza operators provide the capital for the reconstruction in exchange for lower rental rates. See Note 2 for further discussion on capital contributions and Note 6 for further discussion on the service plazas.

The Commission and PennDOT entered into an agreement regarding ownership of overhead bridges that carry state roads. Per the agreement, once the Commission replaces these overhead bridges, and after final inspections and supplemental agreements are signed by both parties, ownership and maintenance responsibilities of the bridges are transferred from the Commission to PennDOT. The Commission transferred assets with a net book value of \$54.7 million and \$40.9 million to PennDOT during the fiscal years ended May 31, 2017 and 2016, respectively.

The accompanying notes are an integral part of these financial statements.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 1 FINANCIAL REPORTING ENTITY

Generally accepted accounting principles require government financial statements to include the primary government and its component units. Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government.

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

Based on the application of the criteria set forth by the Governmental Accounting Standards Board (GASB), the Commission has determined that it has no component units based on its review of GASB Statements No. 14, No. 39 and No. 61.

The Commission is composed of five members, one of whom is the Secretary of Transportation. The others are appointed by the Governor with the approval of two-thirds of the Senate.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Reclassifications

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

Cash Equivalents

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

Investments

Investments are stated at fair value with the exception of certain nonparticipating contracts such as repurchase agreements and other agreements structured as repurchase agreements that are reported at cost, which does not materially differ from fair value. The Commission implemented GASB 72 in fiscal year 2016 and beginning in that year categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. See Note 4 for further discussion.

Capital Assets

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

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

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

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

Debt Premium/Discount and Prepaid Insurance Costs

Debt premium/discount is being amortized using the effective interest rate method over the varying terms of the bonds issued. Prepaid bond insurance costs (incurred through bond issuances) are being amortized using the straight-line method over the varying terms of the bonds issued.

Unearned Income

Unearned income is primarily related to E-ZPass customer deposits. E-ZPass customers of the Commission are required to deposit funds in advance of anticipated travel. Since this money is collected prior to the customers' travel and revenue recognition, it is recorded as unearned income. The Commission also had unearned income related to microwave tower leases and an upfront payment from a CMS swap in fiscal year 2015. The Commission had total unearned income of \$73.8 million and \$69.8 million for fiscal years ended May 31, 2017 and 2016, respectively. Unearned income recorded as current liabilities are \$72.7 million and \$67.8 million for fiscal years ended May 31, 2017 and 2016, respectively. Unearned income recorded as other noncurrent liabilities are \$1.1 million and \$2.0 million for the fiscal years ended May 31, 2017 and 2016, respectively.

Accounting Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts may differ from those estimates.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pennsylvania State Employees' Retirement System (SERS) and additions to / deductions from SERS' fiduciary net position have been determined on the same basis as they are reported by SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Deferred Outflows/Inflows of Resources

The Statements of Net Position report separate sections for deferred outflows and deferred inflows of resources. These separate financial statement elements represent a consumption or acquisition of net position that applies to a future period(s) and so will not be recognized as an outflow or inflow of resources (expense/revenue) until then. The Commission has four items that qualify for reporting in these categories: deferred outflows/inflows from its hedging derivative instruments, deferred inflows from its service concession arrangements, deferred outflows/inflows on refunding bonds and deferred outflows/inflows related to pensions.

The deferred outflows/inflows of resources related to hedging derivative instruments represent the cumulative change in their fair values. Deferred inflows from the Commission's service concession arrangements represent unamortized capital contributions from service plaza operators and the present value of minimum guaranteed rent payments. Deferred outflows/inflows on refundings are the result of differences in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows/inflows of resources related to pensions are described further in Note 8. The components of deferred outflows of resources and deferred inflows of resources, other than the difference between the projected and actual earnings on investments, are amortized into pension expense over a closed period, which reflects the weighted average remaining service life of all SERS members beginning the year in which the deferred amount occurs (current year). The annual difference between the projected and actual earnings on SERS investments is amortized over a five-year closed period beginning the year in which the difference occurs (current year).

Net Position

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

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

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Net Position *(continued)*

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

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

Operating Revenues

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

Fare Revenues

Fare revenues are recognized when vehicles exit the Turnpike System. For fiscal years 2017 and 2016, approximately 77.1% and 74.5%, respectively, of the fare revenues were realized through electronic toll collection. For fiscal years 2017 and 2016, approximately 22.9% and 25.5%, respectively, of the fare revenues were realized through cash or credit card collection.

During fiscal year 2016, the Commission implemented Toll By Plate (TBP), a new license plate tolling system for customers without a valid E-ZPass. The TBP program offers cashless, nonstop travel at the tolling point at the PA Turnpike Bridge over the Delaware River and along the Beaver Valley Expressway. This new system utilizes high speed cameras over the roadway that capture license plate images as vehicles pass through the tolling point. The registered owner of the vehicle then receives a flat rate invoice in the mail. For fiscal years 2017 and 2016, approximately 0.6% and 0.3%, respectively, of the fare revenues were realized through TBP, which are included as part of electronic toll collection.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Operating Expenses

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

Cost of Services

Cost of services includes: wages and salaries, benefits, utilities, fuels, professional fees and services, PA State Police services, and purchased goods, including materials and supplies.

Utilization of Resources

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

Nonoperating Revenues (Expenses)

Nonoperating revenues include: net investment earnings and other miscellaneous revenues not associated with the operations of the Turnpike System. Nonoperating expenses include: Act 44 and Act 89 payments to PennDOT, capital assets transferred to PennDOT, interest and bond expenses, and other miscellaneous expenses not associated with the operations of the Turnpike System.

Act 44 and Act 89 Payments to PennDOT

The Commission and PennDOT entered into a Lease and Funding Agreement, as amended, as required under the terms of Act 44 and Act 89. See Note 9 for more information regarding Act 44 and Act 89.

Capital Assets Transferred to PennDOT

The Commission and PennDOT entered into an agreement regarding ownership of overhead bridges that carry state roads. Per the agreement, once the Commission replaces these overhead bridges, and after final inspections and supplemental agreements are signed by both parties, ownership and maintenance responsibilities of the bridges are transferred from the Commission to PennDOT. The Commission transferred assets with a net book value of \$54.7 million to PennDOT during the fiscal year ended May 31, 2017. The Commission transferred assets with a net book value of \$40.9 million to PennDOT during the fiscal year ended May 31, 2016.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Capital Contributions

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

Oil Company Franchise Tax Revenues

The Commission receives 14% of the additional 55 mills of the Commonwealth's Oil Company Franchise Tax revenues pursuant to Act 26 established in 1991. The revenues totaled \$123.7 million and \$119.8 million for the fiscal years ended May 31, 2017 and 2016, respectively. These revenues are kept in a separate fund as required by the applicable bond indenture.

Motor License Registration Fee Revenues

The Commission received \$28.0 million in registration fee revenue during each of the fiscal years ended May 31, 2017 and 2016 from the Commonwealth's Motor License Fund. These revenues are kept in a separate fund as required by the applicable bond indenture.

Reimbursements from Other Governments

The Commission receives grants from other governments for reimbursement of costs for various highway construction projects. During the fiscal years ended May 31, 2017 and 2016, the Commission recognized \$57.7 million and \$27.9 million, respectively, as capital contributions from the Federal government.

Other Capital Contributions

The Commission entered into contracts with a food and a fuel provider to totally reconstruct the service plazas. The service plaza operators provide the capital for the reconstruction in exchange for lower rental rates. The Commission recognized capital contribution revenues of \$5.2 million and \$5.2 million, related to these agreements for the years ended May 31, 2017 and 2016, respectively. See Note 6 for further discussion on the service plazas.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Adoption of Accounting Pronouncements

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The Commission adopted this statement for its fiscal year ended May 31, 2017. The adoption of this statement had no impact on the Commission's financial statements for fiscal years ending May 31, 2017 and 2016.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The Commission adopted this statement for its fiscal year ended May 31, 2017. The adoption of this statement had no impact on the Commission's financial statements for fiscal years ending May 31, 2017 and 2016.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The Commission adopted this statement for its fiscal year ended May 31, 2017. The adoption of this statement had no impact on the Commission's financial statements for fiscal years ending May 31, 2017 and 2016.

In March 2016, the GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The Commission adopted this statement for its fiscal year ended May 31, 2017. The adoption of this statement had no impact on the Commission's financial statements for fiscal years ending May 31, 2017 and 2016. See the Required Supplementary Information section of these financial statements for disclosures.

Pending Changes in Accounting Principles

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The Commission is required to adopt Statement No. 74 for its fiscal year ended May 31, 2018.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Commission is required to adopt Statement No. 75 for its fiscal year ended May 31, 2019.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The Commission is required to adopt Statement No. 81 for its fiscal year ended May 31, 2018.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Pending Changes in Accounting Principles *(continued)*

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The Commission is required to adopt Statement No. 83 for its fiscal year ended May 31, 2020.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The Commission is required to adopt Statement No. 84 for its fiscal year ended May 31, 2020.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The Commission is required to adopt Statement No. 85 for its fiscal year ended May 31, 2019.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The Commission is required to adopt Statement No. 86 for its fiscal year ended May 31, 2019.

In June 2017, the GASB issued Statement No. 87, *Leases*. The Commission is required to adopt Statement No. 87 for its fiscal year ended May 31, 2021.

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

NOTE 3 INDENTURE REQUIREMENTS AND RESTRICTIONS

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

- A Senior Trust Indenture dated July 1, 1986 which was amended and restated as of March 1, 2001, as supplemented, between the Commission and the Trustee, U.S. Bank Corp., successor to First Union National Bank;
- An Oil Franchise Tax Trust Indenture dated August 1, 1998, as supplemented, between the Commission and the Trustee, Bank of New York Mellon Trust Company, N.A., successor to National City Bank of Pennsylvania;
- A Registration Fee Revenue Trust Indenture dated August 1, 2005 between the Commission and the Trustee, Bank of New York Mellon Trust Company, N.A., successor to Wachovia Bank, N.A.;

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 3 **INDENTURE REQUIREMENTS AND RESTRICTIONS** *(continued)*

- A Subordinate Trust Indenture dated April 1, 2008, as supplemented, between the Commission and the Trustee, Wells Fargo Bank, N.A., successor to Commerce Bank, N.A.; and
- A Special Obligation Trust Indenture dated September 1, 2014 between the Commission and the Trustee, Bank of New York Mellon Trust Company, N.A.

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

NOTE 4 **CASH AND INVESTMENTS**

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

| | May 31, | |
|--|-----------------------|---------------------|
| | 2017 | 2016 |
| | <i>(In Thousands)</i> | |
| <i>Cash and cash equivalent and investment types</i> | | |
| U.S. Treasuries | \$ 383,019 | \$ 244,409 |
| GNMA mortgages | 2,340 | 3,717 |
| Government agency securities | 164,276 | 239,413 |
| Municipal bonds | 99,557 | 128,341 |
| Corporate obligations | 555,789 | 511,946 |
| Total investment securities | 1,204,981 | 1,127,826 |
| Investment derivatives | 9,820 | 13,923 |
| Cash and cash equivalents | 917,790 | 974,295 |
| Total cash and cash equivalents and investments | \$ 2,132,591 | \$ 2,116,044 |

Cash and Cash Equivalents

Cash and cash equivalents are held in various financial institutions. Cash and Cash equivalents are comprised of demand deposits, money market funds and other highly liquid investments that mature within three months of acquisition. The Demand Deposits are secured under Pennsylvania Act 72 which secures public deposits in excess of the FDIC insurance limits. Cash equivalents consist of permitted investments in accordance with the Indentures as noted under cash equivalents and investment securities.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 4 CASH AND INVESTMENTS (continued)Cash and Cash Equivalents (continued)

The following summary presents the Commission's cash and cash equivalents:

| | <u>Bank Balance</u> | <u>Book Balance</u> |
|--|-----------------------|---------------------|
| | <i>(In Thousands)</i> | |
| <i>May 31, 2017</i> | | |
| Demand deposits | \$ 33,009 | \$ 32,924 |
| Money market funds | 562,013 | 562,086 |
| Cash equivalents | <u>322,780</u> | <u>322,780</u> |
| Total cash and cash equivalents | <u>\$ 917,802</u> | <u>\$ 917,790</u> |
| <i>May 31, 2016</i> | | |
| Demand deposits | \$ 22,628 | \$ 23,723 |
| Money market funds | 673,415 | 673,415 |
| Cash equivalents | <u>277,157</u> | <u>277,157</u> |
| Total cash and cash equivalents | <u>\$ 973,200</u> | <u>\$ 974,295</u> |

Cash Equivalents and Investment Securities

Following is a description of the valuation methodologies used for investment securities measured at fair value. The Commission implemented GASB 72 in fiscal year 2016, there were no changes in the methodologies used at May 31, 2016 with the exception of the investment derivatives, which is described in Note 9. There were no changes in the methodologies used at May 31, 2017.

- For fiscal years ended May 31, 2017 and 2016, U.S. Treasuries of \$383.0 and \$244.4 million, respectively, categorized as Level 1 are valued using quoted market prices.
- For fiscal years ended May 31, 2017 and 2016, GNMA mortgages of \$2.3 and \$3.7 million, respectively, categorized as Level 2 are valued using models based on spreads of comparable securities.
- For fiscal years ended May 31, 2017 and 2016, government agency securities of \$164.3 and \$239.4 million, respectively, categorized as Level 2 are valued using various market and industry inputs. Callable agency-issued debt securities are valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. The fair value of agency mortgage pass-through pool securities is model-driven based on spreads of a comparable security. Collateralized mortgage obligations are valued using quoted market prices and trade data adjusted by subsequent changes in related indices for identical or comparable securities.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 4 CASH AND INVESTMENTS *(continued)*

Cash Equivalents and Investment Securities *(continued)*

- For fiscal years ended May 31, 2017 and 2016, municipal bonds of \$99.6 and \$128.3 million, respectively, categorized as Level 2 are valued using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond or credit default swap spreads and volatility.
- For fiscal years ended May 31, 2017 and 2016, corporate obligations of \$555.8 and \$511.9 million, respectively, categorized as Level 2 are valued using recently executed transactions, market price quotations (where observable), bond spreads, credit default swap spreads, at the money volatility and/or volatility skew obtained from independent external parties such as vendors and brokers adjusted for any basis difference between cash and derivative instruments. The spread data used are for the same maturity as the bond.
- For fiscal years ended May 31, 2017 and 2016, investment derivatives of \$9.8 and \$13.9 million, respectively, categorized as Level 2 are valued using discounted future net cash flows, mid-market values, nonperformance risk and bid/offer spreads. See Note 9 for further discussion.

The Indentures (as listed in Note 3) permit investments in obligations of, or guaranteed by, the United States of America, its agencies, and its instrumentalities (United States Government obligations); certificates of deposit issued by institutions insured by the FDIC or fully collateralized with United States Government obligations; investment agreements with certain financial institutions; commercial paper and asset-backed securities rated in the highest category by applicable rating agencies; money market funds and auction rate certificates rated in one of the two highest categories by applicable rating agencies; corporate bonds and medium term notes with a minimum rating of "AA-"; investments in bonds or notes issued by any state or municipality which are rated by Moody's, S&P and Fitch in one of their two highest rating categories; and repurchase agreements with banks or primary government dealers reporting to the Federal Reserve Bank of New York collateralized with obligations of, or guaranteed by, the United States of America.

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

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 4 CASH AND INVESTMENTS *(continued)*

Cash Equivalents and Investment Securities *(continued)*

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

- U.S. Treasury Bills, Notes, Bonds, Strips;
- Time Deposits issued by a banking association organized and doing business under the laws of the United States of America or of any state that may have a combined capital and surplus of at least \$50,000,000;
- Certificates of Deposit that are fully collateralized and issued by a bank, savings and loan or trust company organized under the laws of the United States or any state thereof;
- Investment Agreements with a bank, a bank holding company or a financial institution that has outstanding long-term indebtedness rated “AA” or better by Moody’s and S&P;
- Obligations of any federal agencies which obligations are backed by the full faith and credit of the United States of America;
- Senior debt obligations rated a minimum “Aa2” by Moody’s and “AA” by S&P and issued by government-sponsored enterprises which include Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation; and Federal National Mortgage Association;
- Mortgage-backed securities issued by an approved Federal agency and collateralized mortgage obligations so long as such securities are rated a minimum of “Aa2” by Moody’s and “AA” by S&P;
- Debt obligations of any state or local government entity with securities rated in the “Aa/AA” category;
- Commercial paper rated not less than “A-1/P-1/F-1”, corporate bonds rated “Aa3/AA-” or better, and asset-backed securities rated “AAA”;
- Repurchase agreements with banks or primary government dealers reporting to the Federal Reserve Bank of New York, collateralized by investments with a minimum 102% valuation in securities of U.S. Treasury bills, notes, bonds, strips, or obligations of any federal agencies or senior debt obligations described above; and

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 4 CASH AND INVESTMENTS *(continued)*

Cash Equivalents and Investment Securities *(continued)*

- Share or Certificates in any short-term investment fund investing not less than 90% of its assets in obligations of U.S. treasury bills, notes, bonds, strips or time deposits.

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

Investments in any single Federal agency, not carrying the full faith and credit of the U.S. Government, are limited to 35% of the portfolio.

Investments in certificates of deposit and investment agreements are limited to 30% of the portfolio.

Combined exposure to commercial paper, corporate bonds, and asset-backed securities, in aggregate, is limited to 35% of the total portfolio.

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. At May 31, 2017 and 2016, the Commission held three securities totaling \$21.9 million and \$22.4 million, respectively. Each of these securities had a maturity greater than five years. All of these securities were purchased prior to the Commission's adoption of an Investment Policy.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 4 CASH AND INVESTMENTS (continued)

Credit Risk

The Commission's exposure to credit risk for investment securities is as follows:

| Investment Type | Quality Rating as of May 31, 2017 | | | | | Total |
|------------------------------|-----------------------------------|-------------------|------------------|------------------|---------------|-------------------|
| | AAA | AA | A | A-1 | Below A | |
| | <i>(In Thousands)</i> | | | | | |
| Government agency securities | \$ 4,870 | \$ 159,406 | \$ - | \$ - | \$ - | \$ 164,276 |
| Municipal bonds | 9,020 | 78,741 | 11,796 | - | - | 99,557 |
| Corporate obligations | 91,567 | 376,607 | 32,520 | 54,713 | 382 | 555,789 |
| | <u>\$ 105,457</u> | <u>\$ 614,754</u> | <u>\$ 44,316</u> | <u>\$ 54,713</u> | <u>\$ 382</u> | <u>\$ 819,622</u> |

| Investment Type | Quality Rating as of May 31, 2016 | | | | | Total |
|------------------------------|-----------------------------------|-------------------|------------------|------------------|---------------|-------------------|
| | AAA | AA | A | A-1 | Below A | |
| | <i>(In Thousands)</i> | | | | | |
| Government agency securities | \$ 8,538 | \$ 230,875 | \$ - | \$ - | \$ - | \$ 239,413 |
| Municipal bonds | 11,823 | 96,662 | 19,856 | - | - | 128,341 |
| Corporate obligations | 82,218 | 374,625 | - | 54,588 | 515 | 511,946 |
| | <u>\$ 102,579</u> | <u>\$ 702,162</u> | <u>\$ 19,856</u> | <u>\$ 54,588</u> | <u>\$ 515</u> | <u>\$ 879,700</u> |

Concentration of Credit Risk

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

As of May 31, 2017, the Commission did not have any investments of more than 5% of its consolidated portfolio. As of May 31, 2016, the Commission had investments of more than 5% of its consolidated portfolio with the following issuers:

| Issuer | Total Fair Value | Percentage of Total Portfolio |
|---------------------------------------|-----------------------|-------------------------------|
| | <i>(in Thousands)</i> | |
| Federal Home Loan Bank | \$ 178,375 | 8.43% |
| Federal National Mortgage Association | 115,424 | 5.45% |

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 4 CASH AND INVESTMENTS (continued)Interest Rate Risk

The effective duration of the Commission's investments, by type, was as follows:

| <u>Investment Type</u> | As of May 31, 2017 | |
|------------------------------------|--|--|
| | <u>Fair Value</u> <i>(In Thousands)</i> | <u>Effective Duration</u> <i>(In Years)</i> |
| U.S. Treasuries | \$ 383,019 | 2.5304 |
| GNMA mortgages | 2,340 | 3.6307 |
| Government agency securities | 164,276 | 2.2602 |
| Municipal bonds | 99,557 | 2.3438 |
| Corporate obligations | 555,789 | 1.5028 |
| Total investment securities | \$ 1,204,981 | |

| <u>Investment Type</u> | As of May 31, 2016 | |
|------------------------------------|--|--|
| | <u>Fair Value</u> <i>(In Thousands)</i> | <u>Effective Duration</u> <i>(In Years)</i> |
| U.S. Treasuries | \$ 244,409 | 2.8775 |
| GNMA mortgages | 3,717 | 3.2194 |
| Government agency securities | 239,413 | 1.8555 |
| Municipal bonds | 128,341 | 2.2932 |
| Corporate obligations | 511,946 | 1.8975 |
| Total investment securities | \$ 1,127,826 | |

Custodial Credit Risk

For deposits and investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At May 31, 2017 and 2016, \$32.5 and \$22.1 million, respectively, of the Commission's demand deposits were exposed to custodial credit risk, as they were uninsured and collateralized with securities held by an agent of the pledging financial institution but are not in the Commission's name. None of the Commission's investments were exposed to custodial credit risk at May 31, 2017 or 2016.

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 4 CASH AND INVESTMENTS (continued)

Investment Derivatives

Following is a summary of the Commission's investment derivatives at May 31, 2017:

| | Notional Amount (Thousands) | Weighted Avg. Mat. (Years) | Effective Date | Maturity Date | Terms | Fair Value (Thousands) | Counterparty | Credit Ratings Moody's/ S&P's/Fitch |
|---|--------------------------------|-------------------------------|----------------|---------------|--|---------------------------|-------------------------|---|
| | \$ 67,452 | 7.4 | | | | \$ 782 | JPMorgan Chase Bank | Aa3/A+/AA- |
| | 60,384 | 8.1 | | | Pay 67% of 1-month LIBOR, receive | 672 | Merrill Lynch CS* | Baa1/BBB+/A |
| | 67,452 | 7.4 | | | 60.08% of the 10 year maturity of the | 782 | PNC Bank | A2/A+/A+ |
| | 75,478 | 8.1 | | | USD-ISDA Swap Rate | 840 | Bank of New York Mellon | Aa2/AA-/AA |
| A | <u>270,766</u> | | 7/1/2007 | 12/1/2030 | | <u>3,076</u> | | |
| | 112,000 | | | | | (3,362) | JPMorgan Chase Bank | Aa3/A+/AA- |
| | 48,000 | | | | Pay SIFMA, receive 63% of 1-month | (1,442) | Bank of New York Mellon | Aa2/AA-/AA |
| B | <u>160,000</u> | 12.1 | 8/14/2003 | 12/1/2032 | LIBOR + 20 bps | <u>(4,804)</u> | | |
| | 80,000 | | | | Pay 67% of 1-month LIBOR, receive | 1,707 | JPMorgan Chase Bank | Aa3/A+/AA- |
| | 80,000 | | | | 60.15% of the 10 year maturity of the | 1,326 | Royal Bank of Canada | A1/AA-/AA |
| C | <u>160,000</u> | 12.0 | 9/19/2006 | 11/15/2032 | USD-ISDA Swap rate | <u>3,033</u> | | |
| D | 80,000 | 1.0 | 5/15/2014 | 5/15/2018 | Pay 60.15% of the 10 year maturity of the USD-ISDA Swap Rate, receive 67% of 1-month LIBOR | (400) | Wells Fargo | Aa2/AA-/AA |
| E | 127,020 | 13.8 | 6/1/2010 | 6/1/2039 | Pay SIFMA, receive 99.68% of 3-month LIBOR | 4,118 | Goldman Sachs MMDP | Aa2/AA-/NR |
| F | 127,020 | 13.8 | 6/1/2010 | 6/1/2039 | Pay SIFMA, receive 99.80% of 3-month LIBOR | 4,797 | Deutsche Bank | Baa2/A-/A- |
| | | | | | | <u>\$ 9,820</u> | | |

1-month LIBOR was 1.06033% at May 31, 2017.

3-month LIBOR was 1.21000% at May 31, 2017.

10-year maturity of the USD-ISDA swap rate was 2.150% at May 31, 2017.

SIFMA was 0.76% at May 31, 2017.

* On November 15, 2012, the Commission executed an amendment to the swap agreements to include Merrill Lynch Derivative Products as guarantor. Merrill Lynch Derivative Products credit ratings were Aa3/AA/NR (Moody's/Standard & Poor's/Fitch) as of May 31, 2017.

See Note 9 for additional disclosures regarding derivative instruments, including a rollforward from the prior-year balances.

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 5 CAPITAL ASSETS

Summaries of changes to capital assets for the years ended May 31, 2017 and 2016 are as follows:

| | Balance May 31, 2016 | Additions | Transfers | Reductions | Balance May 31, 2017 |
|--|----------------------------|-------------------|------------------|------------------|-------------------------|
| <i>(In Thousands)</i> | | | | | |
| <i>Capital assets not being depreciated (cost)</i> | | | | | |
| Land and intangibles | \$ 333,934 | \$ 25,276 | \$ - | \$ - | \$ 359,210 |
| Assets under construction | 1,330,627 | 560,091 | (533,767) | - | 1,356,951 |
| Total capital assets not being depreciated | <u>1,664,561</u> | <u>585,367</u> | <u>(533,767)</u> | <u>-</u> | <u>1,716,161</u> |
| <i>Capital assets being depreciated (cost)</i> | | | | | |
| Buildings | 968,902 | 2,457 | 6,827 | - | 978,186 |
| Improvements other than buildings | 119,256 | 1,876 | 5 | - | 121,137 |
| Equipment | 619,779 | 10,329 | 12,748 | 4,556 | 638,300 |
| Infrastructure | 7,908,360 | 20,969 | 514,187 | 62,771 | 8,380,745 |
| Total capital assets being depreciated | <u>9,616,297</u> | <u>35,631</u> | <u>533,767</u> | <u>67,327</u> | <u>10,118,368</u> |
| <i>Less accumulated depreciation for</i> | | | | | |
| Buildings | 377,111 | 22,720 | - | - | 399,831 |
| Improvements other than buildings | 78,579 | 4,405 | - | - | 82,984 |
| Equipment | 481,056 | 36,575 | - | 4,182 | 513,449 |
| Infrastructure | 4,826,786 | 290,643 | - | 8,046 | 5,109,383 |
| Total accumulated depreciation | <u>5,763,532</u> | <u>354,343</u> | <u>-</u> | <u>12,228</u> | <u>6,105,647</u> |
| Total capital assets being depreciated, net | <u>3,852,765</u> | <u>(318,712)</u> | <u>533,767</u> | <u>55,099</u> | <u>4,012,721</u> |
| Total capital assets | <u>\$ 5,517,326</u> | <u>\$ 266,655</u> | <u>\$ -</u> | <u>\$ 55,099</u> | <u>\$ 5,728,882</u> |

| | Balance May 31, 2015 | Additions | Transfers | Reductions | Balance May 31, 2016 |
|--|----------------------------|-------------------|------------------|------------------|----------------------------|
| <i>(In Thousands)</i> | | | | | |
| <i>Capital assets not being depreciated (cost)</i> | | | | | |
| Land and intangibles | \$ 310,518 | \$ 23,416 | \$ - | \$ - | \$ 333,934 |
| Assets under construction | 956,984 | 632,034 | (258,391) | - | 1,330,627 |
| Total capital assets not being depreciated | <u>1,267,502</u> | <u>655,450</u> | <u>(258,391)</u> | <u>-</u> | <u>1,664,561</u> |
| <i>Capital assets being depreciated (cost)</i> | | | | | |
| Buildings | 936,517 | 6,487 | 25,898 | - | 968,902 |
| Improvements other than buildings | 117,331 | 435 | 1,490 | - | 119,256 |
| Equipment | 591,223 | 18,850 | 13,770 | 4,064 | 619,779 |
| Infrastructure | 7,713,188 | 20,778 | 217,233 | 42,839 | 7,908,360 |
| Total capital assets being depreciated | <u>9,358,259</u> | <u>46,550</u> | <u>258,391</u> | <u>46,903</u> | <u>9,616,297</u> |
| <i>Less accumulated depreciation for</i> | | | | | |
| Buildings | 354,269 | 22,842 | - | - | 377,111 |
| Improvements other than buildings | 73,215 | 5,364 | - | - | 78,579 |
| Equipment | 449,801 | 34,962 | - | 3,707 | 481,056 |
| Infrastructure | 4,558,915 | 269,773 | - | 1,902 | 4,826,786 |
| Total accumulated depreciation | <u>5,436,200</u> | <u>332,941</u> | <u>-</u> | <u>5,609</u> | <u>5,763,532</u> |
| Total capital assets being depreciated, net | <u>3,922,059</u> | <u>(286,391)</u> | <u>258,391</u> | <u>41,294</u> | <u>3,852,765</u> |
| Total capital assets | <u>\$ 5,189,561</u> | <u>\$ 369,059</u> | <u>\$ -</u> | <u>\$ 41,294</u> | <u>\$ 5,517,326</u> |

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 5 CAPITAL ASSETS *(continued)*

The Commission incurred interest costs of \$22.3 million and \$21.0 million for the fiscal years ended May 31, 2017 and 2016, respectively, which qualified for capitalization. For fiscal year 2017, there was a \$1.3 million interest income offset; therefore, \$21.0 million was capitalized. For fiscal year 2016, there was a \$0.2 million interest income offset; therefore, \$20.8 million was capitalized.

NOTE 6 SERVICE CONCESSION ARRANGEMENTS

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

As of May 31, 2017, the Commission had capitalized \$119.4 million in capital assets representing 16 service plazas that had fully completed construction and recorded deferred inflows of resources of \$91.0 million related to these assets in accordance with GASB Statement No. 60. Also, as of May 31, 2017 and in accordance with GASB Statement No. 60, the Commission recognized a receivable and deferred inflow of resources in the amount of \$31.7 million for the present value of guaranteed minimum rent payments scheduled to begin upon completion of all construction.

As of May 31, 2016, the Commission had capitalized \$115.0 million in capital assets representing 15 service plazas that had fully completed construction and recorded deferred inflows of resources of \$91.9 million related to these assets in accordance with GASB Statement No. 60. Also, as of May 31, 2016 and in accordance with GASB Statement No. 60, the Commission recognized a receivable and deferred inflow of resources in the amount of \$32.1 million for the present value of guaranteed minimum rent payments scheduled to begin upon completion of all construction.

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 7 DEBT

Following is a summary of debt outstanding:

| | May 31, | |
|---|----------------|------------|
| | 2017 | 2016 |
| | (In Thousands) | |
| <i>Mainline Senior Debt</i> | | |
| 2009 Series A Build America Bonds: Issued \$275,000 in July 2009 at 6.105%, due in varying installments through June 1, 2039. Interest paid each June 1 and December 1. | \$ 275,000 | \$ 275,000 |
| 2009 Series B: Issued \$375,010 in December 2009 at 3.00% to 5.00%, due in varying installments through December 1, 2025. Interest paid each June 1 and December 1. | 312,085 | 349,755 |
| 2010 Series B Build America Bonds: Issued \$600,000 in September 2010 at 5.5%, due in varying installments through December 1, 2049. Interest paid each June 1 and December 1. | 600,000 | 600,000 |
| 2011 Series A: Issued \$68,660 in April 2011 at 4.00% to 5.00% due in varying installments through December 1, 2023. Interest paid each June 1 and December 1. | 68,660 | 68,660 |
| 2011 Series E: Issued \$110,080 in November 2011 at 3.63% to 5.00%, due in varying installments through December 1, 2030. Interest paid each June 1 and December 1. | 110,080 | 110,080 |
| 2012 Series A: Issued \$200,215 in July 2012 at 3.00% to 5.00%, due in varying installments through December 1, 2042. Interest paid each June 1 and December 1. | 189,550 | 193,235 |
| 2012 Series B: Issued \$70,060 in November 2012 at a variable rate (based on SIFMA + 0.55%, reset weekly, paid the 1st of each month). Fully refunded in June 2016. | - | 70,060 |
| 2013 Series A: Issued \$176,075 in January 2013 at a variable rate (based on SIFMA + 0.60% and 0.68%, reset weekly, paid the 1st of each month). Due in varying installments through December 1, 2018. | 176,075 | 176,075 |
| 2013 Series B: Issued \$265,155 in July 2013 at a variable rate (based on SIFMA + 0.40% to 1.27%, reset weekly, paid the 1st of each month). Due in varying installments through December 1, 2020. Partially refunded in June 2015. | 200,000 | 200,000 |
| 2013 Series C: Issued \$222,935 in August 2013 at 3.00% to 5.50%, due in varying installments through December 1, 2043. Interest paid each June 1 and December 1. | 222,750 | 222,935 |
| 2014 Series A: Issued \$236,115 in April 2014 at 4.00% to 5.00%, due in varying installments through December 1, 2044. Interest paid each June 1 and December 1. | 236,115 | 236,115 |
| 2014 Series B-1: Issued \$444,280 in May 2014 at a variable rate (based on SIFMA + 0.05% to 0.98%, reset weekly, paid the 1st of each month). Due in varying installments through December 1, 2021. Partially refunded in June 2015 and June 2016. | 394,150 | 429,200 |
| 2014 Series B-2: Issued \$69,870 in June 2014 at a variable rate (based on SIFMA + 0.05% to 0.30%, reset weekly, paid the 1st of each month). Due in varying installments through December 1, 2016. Partially refunded in June 2015. Final refunding in June 2016. | - | 34,950 |
| 2014 Series Refunding: Issued \$239,620 in November 2014 at 5.00%, due in varying installments through December 1, 2034. Interest paid each June 1 and December 1. | 239,620 | 239,620 |
| 2014 Series C: Issued \$294,225 in December 2014 at 2.25% to 5.00%, due in varying installments through December 1, 2044. Interest paid each June 1 and December 1. | 294,225 | 294,225 |
| 2015 Series A-1: Issued \$385,095 in June 2015 at 4.00% to 5.00%, due in varying installments through December 1, 2045. Interest paid each June 1 and December 1. | 385,095 | 385,095 |
| 2015 Series A-2: Issued \$115,635 in June 2015 at a variable rate (based on SIFMA + 0.15% to 0.90%, reset weekly, paid the 1st of each month). Due in varying installments through December 1, 2021. | 100,000 | 100,000 |
| 2015 Series B: Issued \$304,005 in December 2015 at 2.5% to 5.00%, due in varying installments through December 1, 2045. Interest paid each June 1 and December 1. | 304,005 | 304,005 |
| EB5 Loan (1st-3rd Tranches): Issued \$150,000 in March 2016 at 2.00% due on March 18, 2021. Interest is paid each June 1 and December 1. | 150,000 | 150,000 |
| EB5 Loan (4th Tranche): Issued \$50,000 in May 2016 at 2.00%, due on May 12, 2021. Interest is paid each June 1 and December 1. | 50,000 | 50,000 |
| 2016 Series A-1: Issued \$447,850 in June 2016 at 3.00% to 5.00% due in varying installments through December 1, 2046. Interest is paid each June 1 and December 1. | 447,850 | - |
| 2016 Series A-2: Issued \$140,590 in June 2016 at a variable rate (based on 70% of 1-month LIBOR + 0.60% to 0.70%, reset weekly, paid the 1st of each month). Due in varying installments through December 1, 2018. | 140,590 | - |
| Total Mainline Senior Debt Payable | 4,895,850 | 4,489,010 |

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 7 DEBT (continued)

| | May 31, | |
|---|----------------|------------|
| | 2017 | 2016 |
| | (In Thousands) | |
| <i>Mainline Subordinate Debt (consisting of Subordinate Revenue Debt and Motor License Fund-Enhanced Subordinate Special Revenue Debt)</i> | | |
| <i>Mainline Subordinate Revenue Debt</i> | | |
| 2008 Sub-Series A-1 Subordinate Revenue: Issued \$176,565 in April 2008 at 4.125% to 5.00%, due in varying installments through June 1, 2038. Interest paid each June 1 and December 1. Partially refunded in February, April and June 2016. | \$ 2,820 | \$ 107,885 |
| 2008 Sub-Series A-2 Subordinate Revenue (Federally Taxable): Issued \$68,290 in April 2008 at 3.74% to 6.41%, due in varying installments through June 1, 2022. Interest paid each June 1 and December 1. Partially refunded in October 2016. | 16,610 | 40,485 |
| 2008 Sub-Series B-1, B-2 Subordinate Revenue (B-2 Federally Taxable): Issued \$233,905 in July 2008 at 5.00% to 7.47%, due in varying installments through June 1, 2036. Interest paid each June 1 and December 1. Sub-Series B-1 was partially refunded in February 2016, April 2016, and final refunding in June 2016. Sub-Series B-2 was partially refunded in October 2016. | 21,205 | 119,655 |
| 2008 Sub-Series C-1, C-3, C-4 Subordinate Revenue (C-4 Federally Taxable): Issued \$411,110 in October 2008 at 4.00% to 6.25%, due in varying installments through June 1, 2038. Interest paid each June 1 and December 1. Sub-Series C-3 refunded July 2009 and Sub-Series C-4 refunded June 2010. Sub-Series C-1 was partially refunded in February 2016. | 12,790 | 18,745 |
| 2009 Series A Subordinate Revenue: Issued \$308,035 in January 2009 at 3.00% to 5.00%, due in varying installments through June 1, 2039. Interest paid each June 1 and December 1. Partially refunded in February 2016, April 2016, June 2016, October 2016, and May 2017. | 83,100 | 225,090 |
| 2009 Series B Subordinate Revenue: Issued \$856,735 in July 2009 at 3.00% to 5.75%, due in varying installments through June 1, 2039. Interest paid each June 1 and December 1. Partially refunded in February, April, June and October 2016. | 204,585 | 629,910 |
| 2009 Series C Subordinate Revenue: Issued \$99,998 in July 2009 at 6.25%, due in varying installments through June 1, 2033. Interest to be compounded semi-annually from July 2009 until June 1, 2016, thereafter paid each June 1 and December 1. Series C issued as Capital Appreciation Bonds (CABs). Compounded interest to be paid at maturity or earlier redemption. | 152,355 | 152,355 |
| 2009 Series D Subordinate Revenue: Issued \$324,745 in October 2009 at 4.00% to 5.50%, due in varying installments through December 1, 2041. Interest paid each June 1 and December 1. Partially refunded in February 2016, June 2016, October 2016, and May 2017. | 7,365 | 314,770 |
| 2009 Series E Subordinate Revenue: Issued \$200,005 in October 2009 at 6.00% to 6.375%, due in varying installments through December 1, 2038. Interest to be compounded semi-annually from October 2009 to December 1, 2017, thereafter paid each June 1 and December 1. Series E issued as CABs. The compounded interest to be paid at maturity or earlier redemption. | 319,922 | 300,733 |
| 2010 Sub-Series B-1, B-2 Subordinate Revenue: Issued \$273,526 in July 2010 at 5.00%. Sub-Series B-1 due in varying installments through December 1, 2037. Sub-Series B-2 issued as convertible CABs. Interest compounded semi-annually until December 1, 2015, thereafter paid each June 1 and December 1. Compounded interest paid at maturity or earlier redemption. Sub-Series B-1 was partially refunded in June 2016. Sub-Series B-2 was partially refunded in June and October 2016. | 199,250 | 334,120 |
| 2010 Sub-Series C-1, C-2, C-3 Subordinate Revenue: Issued \$138,916 in October 2010 at 4.25% to 5.45%. Sub-Series C-1 due in varying installments through December 1, 2040. Sub-Series C-2 issued as convertible CABs. Interest compounded semi-annually until December 1, 2015, thereafter paid each June 1 and December 1. Compound interest paid at maturity or earlier redemption. Sub-Series C-3 issued as CABs with interest paid at maturity or earlier redemption. Sub-Series C-2 partially refunded in June 2016. | 148,636 | 165,352 |
| 2011 Series A Subordinate Revenue: Issued \$135,655 in April 2011 at 5.00% to 6.50%, due in varying installments through December 1, 2041. Interest paid each June 1 and December 1. Partially refunded in April 2015, June 2016, October 2016. | 24,325 | 85,625 |
| 2011 Series B Subordinate Revenue: Issued \$126,740 in October 2011 at 2.00% to 5.25%, due in varying installments through December 1, 2041. Interest paid each June 1 and December 1. | 109,510 | 113,060 |
| 2012 Series A Subordinate Revenue: Issued \$123,545 in April 2012 at 3.00% to 5.00%, due in varying installments through December 1, 2042. Interest paid each June 1 and December 1. | 109,640 | 113,110 |
| 2012 Series B Subordinate Revenue: Issued \$121,065 in October 2012 at 2.00% to 5.00%, due in varying installments through December 1, 2042. Interest paid each June 1 and December 1. | 108,910 | 110,710 |
| 2013 Series A Subordinate Revenue: Issued \$71,702 in April 2013 at 3.125% to 5.00%, due in varying installments through December 1, 2043. Sub-Series A-1 Serial bond interest paid each June 1 and December 1. Sub-Series A-1 Term bond interest paid each June 1 and December 1. Sub-Series A-2 issued as convertible CABs. Interest compounded semi-annually until December 1, 2018, thereafter paid each June 1 and December 1. | 79,550 | 77,486 |

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 7 DEBT (continued)

| | May 31, | |
|---|------------------|------------------|
| | 2017 | 2016 |
| | (In Thousands) | |
| <i>Mainline Subordinate Debt (consisting of Subordinate Revenue Debt and Motor License Fund-Enhanced Subordinate Special Revenue Debt) (continued)</i> | | |
| <i>Mainline Subordinate Revenue Debt (continued)</i> | | |
| 2013 Sub-Series B-1, B-2, B-3 Subordinate Revenue: Issued \$108,708 in October 2013 at 2.00% to 6.10%, due in varying installments through December 1, 2043. Sub-Series B-1 interest paid each June 1 and December 1. Sub-Series B-2 issued as convertible CABs. Interest compounded semi-annually until December 1, 2028, thereafter paid each June 1 and December 1. Compound interest paid at maturity or earlier redemption. Sub-Series B-3 interest paid each June 1 and December 1. | \$ 114,022 | \$ 112,792 |
| 2014 Sub-Series A-1, A-2, A-3 Subordinate Revenue: Issued \$148,300 in April 2014 at 2.00% to 5.44%, due in varying installments through December 1, 2043. Sub-Series A-1 interest paid each June 1 and December 1. Sub-Series A-2 issued as convertible CABs. Interest compounded semi-annually until June 1, 2024, thereafter paid each June 1 and December 1. Compound interest paid at maturity or earlier redemption. Sub-Series B-3 issued as CABs with interest paid at maturity or earlier redemption. | 154,152 | 152,364 |
| 2014 Series B Subordinate Revenue: Issued \$201,395 in October 2014 at 5.00% to 5.25% due in varying installments through December 1, 2044. Interest paid each June 1 and December 1. | 201,395 | 201,395 |
| 2015 Series A-1 Subordinate Revenue: Issued \$209,010 in April 2015 at 3.00% to 5.25% due in varying installments through December 1, 2045. Interest is paid each June 1 and December 1. | 209,010 | 209,010 |
| 2015 Series A-2 Subordinate Revenue: Issued \$50,000 in April 2015 at a variable rate (based on SIFMA + 0.80%, reset weekly, paid the 1st of each month commencing on December 1, 2015). Due in varying installments through December 1, 2045. | 50,000 | 50,000 |
| 2015 Series B Subordinate Revenue: Issued \$192,215 in October 2015 at 4.00% to 5.00% due in varying installments through December 1, 2045. Interest is paid each June 1 and December 1. | 192,215 | 192,215 |
| 2016 Series Refunding Subordinate Revenue: Issued \$360,990 in February 2016 at 3.00% to 5.00% due in varying installments through June 1, 2038. Interest is paid each June 1 and December 1. | 360,990 | 360,990 |
| 2016 Series A-1 Subordinate Revenue: Issued \$203,700 in April 2016 at 3.00% to 5.00% due in varying installments through December 1, 2046. Interest is paid each June 1 and December 1. | 203,700 | 203,700 |
| 2016 Series A-2 Subordinate Revenue: Issued \$185,455 in April 2016 at 5.00% due in varying installments through June 1, 2033. Interest is paid each June 1 and December 1. | 185,455 | 185,455 |
| 2016 Series Second Refunding Subordinate Revenue: Issued \$649,545 in June 2016 at 3.00% to 5.00% due in varying installments through June 1, 2039. Interest is paid each June 1 and December 1. | 649,545 | - |
| 2016 Series A Third Refunding Subordinate Revenue: Issued \$255,455 in October 2016 at 3.375% to 5.00% due in varying installments through December 1, 2041. Interest is paid June 1 and December 1. | 255,455 | - |
| 2016 Series B Third Refunding Subordinate Revenue (Federally Taxable): Issued \$75,755 in October 2016 at 1.175% to 2.928% due in varying installments through December 1, 2025. Interest is paid June 1 and December 1. | 75,755 | - |
| 2017 Series A Subordinate Revenue: Issued \$284,275 in January 2017 at 4.00% to 5.50% due in varying installments through December 1, 2046. Interest is paid each June 1 and December 1. | 284,275 | - |
| 2017 Series First Refunding Subordinate Revenue: Issued \$291,850 in May 2017 at a variable rate (based on SIFMA + 0.60% reset weekly, paid the 1st of each month commencing on June 1, 2017). Due in varying installments through December 1, 2041. | 291,850 | - |
| | <u>4,828,392</u> | <u>4,577,012</u> |
| <i>Motor License Fund-Enhanced Subordinate Special Revenue Debt</i> | | |
| 2010 Sub-Series A-1, A-2, A-3 Subordinate Motor License Fund-Enhanced Special Revenue: Issued \$187,816 in July 2010 at 4.50% to 5.50%. Sub-Series A-1 due in varying installments through December 1, 2038. Interest paid each June 1 and December 1. Sub-Series A-2 issued as convertible CABs. Interest will compound semi-annually until December 1, 2015, thereafter paid each June 1 and December 1. Compound interest paid at maturity or earlier redemption. Sub-Series A-3 issued as CABs. Compounded interest to be paid at maturity or earlier redemption. Sub-Series A-2 was partially refunded in October 2016. | 205,684 | 220,308 |
| 2010 Sub-Series B-1, B-2, B-3 Subordinate Motor License Fund-Enhanced Special Revenue: Issued \$105,299 in October 2010 at 3.95% to 5.125%, due in varying installments through December 1, 2040. Sub-Series B-1 interest paid each June 1 and December 1. Sub-Series B-2 issued as convertible CABs. Interest compounded semi-annually until December 1, 2015, thereafter paid each June 1 and December 1. Compound interest paid at maturity or earlier redemption. Sub-Series B-3 issued as CABs with interest paid at maturity or earlier redemption. Sub-Series B-2 was partially refunded in October 2016. | 114,415 | 123,198 |

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 7 DEBT (continued)

| | May 31, | |
|---|-----------------------|------------------|
| | 2017 | 2016 |
| | <i>(In Thousands)</i> | |
| <i>Motor License Fund-Enhanced Subordinate Special Revenue Debt (continued)</i> | | |
| 2011 Series A Subordinate Motor License Fund-Enhanced Special Revenue: Issued \$102,620 in April 2011 at 5.00% to 6.00%, due in varying installments through December 1, 2041. Interest paid each June 1 and December 1. Partially refunded in October 2016. | \$ 45,760 | \$ 102,620 |
| 2011 Series B Subordinate Motor License Fund-Enhanced Special Revenue: Issued \$98,910 in October 2011 at 3.00% to 5.00%, due in varying installments through December 1, 2041. Interest paid each June 1 and December 1. | 96,855 | 97,605 |
| 2012 Series A Subordinate Motor License Fund-Enhanced Special Revenue: Issued \$94,935 in April 2012 at 2.00% to 5.00%, due in varying installments through December 1, 2042. Interest paid each June 1 and December 1. | 93,570 | 94,090 |
| 2012 Series B Subordinate Motor License Fund-Enhanced Special Revenue: Issued \$92,780 in October 2012 at 3.00% to 5.00%, due in varying installments through December 1, 2042. Interest paid each June 1 and December 1. | 91,440 | 92,020 |
| 2013 Series A Subordinate Motor License Fund-Enhanced Special Revenue: Issued \$92,465 in April 2013 at 3.00% to 5.00%, due in varying installments through December 1, 2043. Interest paid each June 1 and December 1. | 92,465 | 92,465 |
| 2013 Sub-Series B-1, B-2, B-3 Subordinate Motor License Fund-Enhanced Special Revenue: Issued \$101,731 in October 2013 at 2.00% to 5.875%, due in varying installments through December 1, 2043. Sub-Series B-1 interest paid each June 1 and December 1. Sub-Series B-2 issued as convertible CABs. Interest compounded semi-annually until December 1, 2028, thereafter paid each June 1 and December 1. Compound interest paid at maturity or earlier redemption. Sub-Series B-3 interest paid each June 1 and December 1. | 105,779 | 104,908 |
| 2014 Series A Subordinate Motor License Fund-Enhanced Special Revenue: Issued \$59,740 in April 2014 at 4.50% to 4.90%, due in varying installments through December 1, 2044. The Series A were issued as convertible CABs. Interest will compound semi-annually until December 1, 2021, thereafter paid each June 1 and December 1. Compound interest paid at maturity or earlier redemption. | 68,940 | 65,816 |
| 2016 First Refunding Subordinate Motor License Fund-Enhanced Special Revenue: Issued \$79,865 in October 2016 at 5.00% due in varying installments through December 1, 2036. Interest is paid each June 1 and December 1. | 79,865 | - |
| Total Motor License Fund-Enhanced Subordinate Special Revenue Debt | <u>994,773</u> | <u>993,030</u> |
| Total Mainline Subordinate Debt (consisting of Subordinate Revenue Debt and Motor License Fund-Enhanced Subordinate Special Revenue Debt) | <u>5,823,165</u> | <u>5,570,042</u> |
| Total Mainline Senior and Subordinate Debt Payable | 10,719,015 | 10,059,052 |
| <i>Oil Company Franchise Tax Senior Debt</i> | | |
| 2003 Series C Oil Company Franchise Tax Multi-Modal Revenue: Issued \$160,000 in August 2003 at a variable rate, converted to a fixed rate of 5.00% in May 2008, due in varying installments through December 1, 2032. Interest paid each June 1 and December 1. Fully refunded in September 2016. | - | 160,000 |
| 2006 Series A Oil Company Franchise Tax Revenue Refunding: Issued \$98,705 in November 2006 at 5.00%, due in varying installments through December 1, 2023. Interest paid each June 1 and December 1. Fully refunded in December 2016. | - | 75,425 |
| 2009 Series A, B, C Oil Company Franchise Tax Revenue: Issued \$164,181 in October 2009. Series A issued at 2.00% to 5.85%, due in varying installments through December 1, 2023. Series B (Build America Bonds, Issuer Subsidy, Federally Taxable) issued at 5.85%, due in varying installments through December 1, 2037. Interest paid each June 1 and December 1. Series C issued as CABs at 5.30%. Interest on the CABs is deferred until maturity on December 1, 2039. Sub-Series A-2 partially refunded in September 2016. | 159,901 | 162,286 |
| 2013 Series A Oil Company Franchise Tax Revenue Refunding: Issued \$27,785 in October 2013 at 2.50% to 5.00%, due in varying installments through December 1, 2024. Interest paid each June 1 and December 1. | 23,120 | 23,120 |
| 2016 Series A Oil Company Franchise Tax Revenue Refunding: Issued \$198,595 in September 2016 at 4.00% to 5.00% due in varying installments through December 1, 2032. Interest paid each June 1 and December 1. | 198,595 | - |
| Total Oil Company Franchise Tax Senior Debt Payable | 381,616 | 420,831 |

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 7 DEBT (continued)

| | May 31, | |
|--|----------------------|----------------------|
| | 2017 | 2016 |
| | (In Thousands) | |
| <i>Oil Company Franchise Tax Subordinate Debt</i> | | |
| 2003 Series B Subordinate Oil Company Franchise Tax Revenue: Issued \$197,955 in August 2003 at 2.38% to 5.50%, due in varying installments through December 1, 2032. Interest paid each June 1 and December 1. Partially defeased in November 2006 and partially refunded in October 2013. Final refunding in September 2016. | \$ - | \$ 16,440 |
| 2006 Series B Subordinate Oil Company Franchise Tax Revenue Refunding: Issued \$141,970 in November 2006 at 3.75% to 5.00%, due in varying installments through December 1, 2031. Interest paid each June 1 and December 1. Fully refunded in December 2016. | - | 129,350 |
| 2009 Series D, E Subordinate Oil Company Franchise Tax Revenue: Issued \$134,065 in October 2009. Series D issued at 2.00% to 5.00%, due in varying installments through December 1, 2027. Series E (Build America Bonds, Issuer Subsidy, Federally Taxable) issued at 6.378%, due in varying installments through December 1, 2037. Sub-Series D-2 partially refunded in September 2016. | 126,035 | 127,795 |
| 2013 Series B Subordinate Oil Company Franchise Tax Revenue: Issued \$32,035 in October 2013 at 2.00% and 5.00%, due in varying installments through December 1, 2025. Interest paid each June 1 and December 1. | 24,215 | 24,215 |
| 2016 Series B Oil Company Franchise Tax Revenue Refunding: Issued \$115,395 in September 2016 at 4.00% to 5.00% due in varying installments through December 1, 2032. Interest paid each June 1 and December 1. | 115,395 | - |
| Total Oil Company Franchise Tax Subordinate Debt Payable | <u>265,645</u> | <u>297,800</u> |
| Total Oil Company Franchise Tax Senior and Subordinate Debt Payable | 647,261 | 718,631 |
| <i>Motor License Registration Fee Debt</i> | | |
| 2005 Series A: Issued \$234,135 in August 2005 at 3.25% to 5.25%, due in varying installments through July 15, 2030. Interest paid each January 15 and July 15. | 163,270 | 171,045 |
| 2005 Series B, C, D: Issued \$231,425 in August 2005 and remarketed in October 2015 with a direct placement at a variable rate (based on 70% of LIBOR + 0.85%, reset monthly, paid the 15th of each month), due in varying installments through July 15, 2041. | 231,425 | 231,425 |
| Total Motor License Registration Fee Debt Payable | <u>394,695</u> | <u>402,470</u> |
| Total Debt Payable | 11,760,971 | 11,180,153 |
| Unamortized premium/discount | <u>808,031</u> | <u>514,396</u> |
| Total Debt, net of unamortized premium/discount | 12,569,002 | 11,694,549 |
| Less: Current portion | <u>391,375</u> | <u>262,690</u> |
| Debt, noncurrent portion | <u>\$ 12,177,627</u> | <u>\$ 11,431,859</u> |

SIFMA was 0.76% on May 31, 2017.
1-month LIBOR was 1.06033% on May 31, 2017.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 7 DEBT (continued)

Changes in debt are as follows:

| | <u>Balance at June 1, 2016</u> | <u>Additions</u> | <u>Reductions</u> <i>(In Thousands)</i> | <u>Balance at May 31, 2017</u> | <u>Due Within One Year</u> |
|-------------------------------------|------------------------------------|---------------------|--|------------------------------------|--------------------------------|
| Mainline debt | \$ 10,059,052 | \$ 2,259,308 | \$ 1,599,345 | \$ 10,719,015 | \$ 365,745 |
| Oil Company Franchise Tax debt | 718,631 | 315,165 | 386,535 | 647,261 | 17,445 |
| Motor License Registration Fee debt | 402,470 | - | 7,775 | 394,695 | 8,185 |
| | <u>11,180,153</u> | <u>2,574,473</u> | <u>1,993,655</u> | <u>11,760,971</u> | <u>391,375</u> |
| Premium (discount), net | 514,396 | 339,637 | 46,002 | 808,031 | - |
| Totals | <u>\$ 11,694,549</u> | <u>\$ 2,914,110</u> | <u>\$ 2,039,657</u> | <u>\$ 12,569,002</u> | <u>\$ 391,375</u> |

| | <u>Balance at June 1, 2015</u> | <u>Additions</u> | <u>Reductions</u> <i>(In Thousands)</i> | <u>Balance at May 31, 2016</u> | <u>Due Within One Year</u> |
|-------------------------------------|------------------------------------|---------------------|--|------------------------------------|--------------------------------|
| Mainline debt | \$ 8,984,240 | \$ 2,001,272 | \$ 926,460 | \$ 10,059,052 | \$ 236,030 |
| Oil Company Franchise Tax debt | 735,141 | 1,115 | 17,625 | 718,631 | 18,885 |
| Motor License Registration Fee debt | 409,880 | - | 7,410 | 402,470 | 7,775 |
| | <u>10,129,261</u> | <u>2,002,387</u> | <u>951,495</u> | <u>11,180,153</u> | <u>262,690</u> |
| Premium (discount), net | 306,147 | 226,958 | 18,709 | 514,396 | - |
| Totals | <u>\$ 10,435,408</u> | <u>\$ 2,229,345</u> | <u>\$ 970,204</u> | <u>\$ 11,694,549</u> | <u>\$ 262,690</u> |

Debt service requirements subsequent to May 31, 2017 related to all sections of debt are as follows:

| <u>Year Ending May 31</u> | <u>Principal Maturities</u> | <u>Interest</u> <i>(In Thousands)</i> | <u>Total</u> |
|-------------------------------|---------------------------------|--|----------------------|
| 2018 | \$ 391,375 | \$ 494,655 | \$ 886,030 |
| 2019 | 350,075 | 508,224 | 858,299 |
| 2020 | 319,080 | 500,774 | 819,854 |
| 2021 | 585,265 | 491,175 | 1,076,440 |
| 2022 | 375,335 | 473,811 | 849,146 |
| 2023-2027 | 1,343,494 | 2,234,669 | 3,578,163 |
| 2028-2032 | 1,677,910 | 1,929,339 | 3,607,249 |
| 2033-2037 | 2,548,898 | 1,416,136 | 3,965,034 |
| 2038-2042 | 2,681,292 | 893,217 | 3,574,509 |
| 2043-2047 | 1,285,082 | 242,291 | 1,527,373 |
| 2048-2052 | 203,165 | 22,868 | 226,033 |
| | <u>\$ 11,760,971</u> | <u>\$ 9,207,159</u> | <u>\$ 20,968,130</u> |

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 7 DEBT *(continued)*

The Commission's purpose for issuing debt is as follows:

- Mainline Senior Debt is issued for the purpose of financing the costs of various capital projects in the Commission's capital plan and for refunding outstanding Mainline Senior Debt.
- Mainline Subordinate Debt is issued for the purpose of financing a portion of the costs of making payments to the Pennsylvania Department of Transportation in accordance with Act 44 and Act 89 and for refunding outstanding Subordinate Debt. See Note 9 for additional information regarding Act 44 and Act 89.
- Oil Company Franchise Tax Debt and Motor License Registration Fee Debt are issued for the purpose of financing the costs of capital expenditures related to the Mon/Fayette and Southern Beltway expansion projects and to refund outstanding Oil Company Franchise Tax Debt and Motor License Registration Fee Debt.

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

Mainline Debt Requirements and Recent Activity

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 obligated to raise tolls accordingly.

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

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

In fiscal year 2013, the Commission entered into a loan agreement to borrow up to \$200 million in four tranches of up to \$50 million each through the Immigrant Investor Program (known as the EB-5 visa program) administered by the U.S. Citizenship and Immigration Services. The Commission is borrowing this money to fund a portion of the I-95 Interchange Project. Such debt is issued under the Senior Indenture on parity with the Turnpike Revenue Bonds. As of May 31, 2017 and 2016, the Commission has borrowed all \$200 million under the agreement.

In August 2016, the Commission entered into a second loan agreement to borrow, over a possible eight-year period, up to \$800 million in 16 tranches of up to \$50 million each through the EB-5 visa program. The Commission is borrowing this money to fund a portion of the costs of certain capital projects included in the Commission's current Ten Year Capital Plan. Such debt, if borrowed, would be issued under the Senior Indenture on parity with the Turnpike Revenue Bonds. As of May 31, 2017, the Commission has not borrowed any funds under the \$800 million loan agreement.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

Under the Commonwealth of Pennsylvania's Act 44 of 2007 (Act 44), the Commission may issue up to \$5 billion of Special Revenue Bonds guaranteed by the Commonwealth of Pennsylvania's Motor License Fund. The Special Revenue Bonds authorized by Act 44 are subject to various limitations, including, among others, the following: the aggregate amount of such Special Revenue Bonds is limited to \$5 billion; no more than \$600 million of Special Revenue Bonds may be issued in any calendar year; debt service on the Special Revenue Bonds shall be payable from any available funds of the Commission, but are additionally secured by amounts payable from the Commonwealth of Pennsylvania's Motor License Fund which is required to pay any debt service shortfall. All Special Revenue Bond debt service payments are subordinate obligations of the Commission payable solely from certain money in, or periodically released 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. Pursuant to the Commonwealth of Pennsylvania's Act 89 of 2013, Special Revenue Bonds may not be issued by the Commission to fund any portion of its annual payments obligation to PennDOT after July 1, 2014, although Special Revenue Refunding Bonds may be issued. Through fiscal year ended May 31, 2017, the Commission issued \$1,016.2 million of Special Revenue Bonds. During fiscal year 2017, \$83.1 million of the Special Revenue Bonds was refunded. The outstanding principal related to these Special Revenue Bonds was \$994.8 million at May 31, 2017. The commitment of the Commonwealth of Pennsylvania's Motor License Fund to provide additional security to pay any Special Revenue Bond debt service shortfall shall continue until the retirement or defeasance of any Special Revenue Bonds or until October 13, 2057, whichever is sooner. To date, the Commission has made all required Special Revenue Bond debt service payments. No funds have been drawn or requested from the Commonwealth's Motor License Fund for Special Revenue Bond debt service during the current reporting period or any prior reporting periods. In the event that the Commonwealth's Motor License Fund would be required to make a Special Revenue Bond debt service payment, a provision of the Amended Lease and Funding Agreement, executed between the Commission and PennDOT, requires the Commission to reimburse the Motor License Fund for any Special Revenue Bond debt service payments plus interest accruing to the date of the Commission's failure to pay the debt service. The obligation of the Commission to reimburse the Motor License Fund for any Special Revenue Bond debt service payment is a subordinate obligation of the Commission and is payable only from amounts, if any, in the Commission's General Reserve Fund as permitted by any Commission financing documents, financial covenants, insurance policies, liquidity policies or agreements in effect at the Commission.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

In June 2015, the Commission issued \$385,095,000 2015 Series A-1 Senior Bonds at a fixed rate with a maturity date of December 1, 2045. The 2015 Series A-1 Senior Bonds were issued to provide funds to finance the costs of various capital expenditures and advance refund all of the Commission's 2006 Series A Senior Revenue Bonds and for paying the cost of issuing the 2015 Series A-1 Senior Bonds. The advanced refunding of the 2006 Series A Senior Bonds allowed the Commission to reduce its debt service by approximately \$18.2 million. The transaction resulted in an economic gain of approximately \$13.7 million.

In June 2015, the Commission issued \$115,635,000 2015 Series A-2 Senior Bonds at a variable rate with a maturity date of December 1, 2021. The 2015 Series A-2 Senior Bonds were issued primarily for the current refunding of existing variable-rate debt, which included the Commission's 2013 Series B Variable Rate Revenue Bonds (\$65,155,000), the Commission's 2014 Series B-1 Variable Rate Revenue Bonds (\$15,080,000) and the Commission's 2014 Series B-2 Variable Rate Revenue Bonds (\$34,920,000). The bonds were also issued for payment of the costs of issuance for the 2015 Series A-2 Senior Bonds.

In October 2015, the Commission issued \$192,215,000 2015 Series B Subordinate Bonds at a fixed rate with a maturity date of December 1, 2045. The 2015 Series B Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44 and Act 89 and for paying the cost of issuing the 2015 Series B Subordinate Bonds.

In December 2015, the Commission issued \$304,005,000 2015 Series B Senior Bonds at a fixed rate with a maturity date of December 1, 2045. The 2015 Series B Senior Bonds were issued to provide funds to finance the costs of various capital expenditures set forth in the Commission's current or any prior ten-year capital plan and for paying the cost of issuing the 2015 Series B Senior Bonds.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

In February 2016, the Commission issued \$360,990,000 2016 Series Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of June 1, 2038. The 2016 Series Subordinate Revenue Refunding Bonds were issued to provide funds for the advance refunding of a portion of the Commission's 2008 Series A-1 Subordinate Revenue Bonds (\$29,025,000), 2008 Series B-1 Subordinate Revenue Bonds (\$52,390,000), 2008 Series C-1 Subordinate Revenue Bonds (\$189,875,000), 2009 Series A Subordinate Revenue Bonds (\$23,470,000), 2009 Series B Subordinate Revenue Bonds (\$76,435,000), 2009 Series D Subordinate Revenue Bonds (\$9,975,000) and for paying the cost of issuing the 2016 Series Subordinate Revenue Refunding Bonds. The advance refunding of the 2008 Series A-1 Subordinate Bonds, 2008 Series B-1 Subordinate Bonds, 2008 Series C-1 Subordinate Bonds, 2009 Series A Subordinate Bonds, 2009 Series B Subordinate Bonds, and 2009 Series D Subordinate Bonds allowed the Commission to reduce its debt service by approximately \$82.6 million. The transaction resulted in an economic gain of approximately \$57.9 million.

In March 2016, the Commission issued a \$150,000,000 2016 EB5 Loan at a fixed rate with a maturity date of March 18, 2021. This amount is comprised of the 1st-3rd Tranches under the Immigrant Investor Program loan agreement. The 2016 EB5 Loan was issued to fund a portion of the I-95 Interchange Project and for paying the cost of issuing the 2016 EB5 Loan.

In April 2016, the Commission issued \$203,700,000 2016 Series A-1 Subordinate Bonds at a fixed rate with a maturity date of December 1, 2046. The 2016 Series A-1 Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44 and Act 89 and for paying the cost of issuing the 2016 Series A-1 Subordinate Bonds.

In April 2016, the Commission issued \$185,455,000 2016 Series A-2 Subordinate Bonds at a fixed rate with a maturity date of June 1, 2033. The 2016 Series A-2 Subordinate Bonds were issued to provide funds for the advance refunding of a portion of the Commission's 2008 Series A-1 Subordinate Revenue Bonds (\$39,655,000), 2008 Series B-1 Subordinate Revenue Bonds (\$61,860,000), 2009 Series A Subordinate Revenue Bonds (\$27,275,000), 2009 Series B Subordinate Revenue Bonds (\$69,735,000) and for paying the cost of issuing the 2016 Series A-2 Subordinate Bonds. The advance refunding of the 2008 Series A-1 Subordinate Bonds, 2008 Series B-1 Subordinate Bonds, 2009 Series A Subordinate Bonds, and 2009 Series B Subordinate Bonds allowed the Commission to reduce its debt service by approximately \$26.6 million. The transaction resulted in an economic gain of approximately \$20.7 million.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

In May 2016, the Commission issued a \$50,000,000 2016 EB5 Loan at a fixed rate with a maturity date of May 12, 2021. This amount is the 4th Tranche under the Immigrant Investor Program loan agreement. The 2016 EB5 Loan was issued to fund a portion of the I-95 Interchange Project and for paying the cost of issuing the 2016 EB5 Loan.

In June 2016, the Commission issued \$447,850,000 2016 Series A-1 Senior Bonds at a fixed rate with a maturity date of December 1, 2046. The 2016 Series A-1 Senior Bonds were issued primarily to provide funds for various capital expenditures set forth in the Commission's current or any prior 10-year capital plan, including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking or certain bridges and the rehabilitation of certain interchanges. The bonds were also issued for payment of the costs of issuance for the 2016 Series A-1 Senior Bonds.

In June 2016, the Commission issued \$140,590,000 2016 Series A-2 Senior Bonds at a variable rate with a maturity date of December 1, 2018. The 2016 Series A-2 Senior Bonds were issued primarily for the current refunding of existing variable rate debt which included the Commission's 2012 Series B Variable Rate Revenue Bonds (\$70,060,000), the Commission's 2014 Series B-1 Variable Rate Revenue Bonds (\$35,050,000) and the Commission's 2014 Series B-2 Variable Rate Revenue Bonds (\$34,950,000). The bonds were also issued for payment of the costs of issuance for the 2016 Series A-2 Senior Bonds.

In June 2016, the Commission issued \$649,545,000 2016 Second Series Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of June 1, 2039. The 2016 Second Series Subordinate Revenue Refunding Bonds were issued to provide funds for the advance refunding of a portion of the Commission's 2008 Series A-1 Subordinate Revenue Bonds (\$105,065,000), 2008 Series B-1 Subordinate Revenue Bonds (\$50,665,000), 2009 Series A Subordinate Revenue Bonds (\$43,355,000), 2009 Series B Subordinate Revenue Bonds (\$288,185,000), 2009 Series D Subordinate Revenue Bonds (\$16,575,000), 2010 Series B-1 Subordinate Revenue Bonds (\$11,850,000), 2010 Series B-2 Subordinate Revenue Bonds (\$87,475,000), 2010 Series C-2 Subordinate Revenue Bonds (\$17,670,000), 2011 Series A Subordinate Revenue Bonds (\$53,375,000), and for paying the cost of issuing the 2016 Second Series Subordinate Revenue Refunding Bonds. The advance refunding of the 2008 Series A-1 Subordinate Bonds, 2008 Series B-1 Subordinate Bonds, 2009 Series A Subordinate Bonds, 2009 Series B Subordinate Bonds, 2009 Series D Subordinate Bonds, 2010 Series B-1 Subordinate Bonds, 2010 Series B-2 Subordinate Bonds, 2010 Series C-2 Subordinate Bonds, and 2011 Series A Subordinate Bonds allowed the Commission to reduce its debt service by approximately \$113.5 million. The transaction resulted in an economic gain of approximately \$74.4 million.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

In October 2016, the Commission issued \$255,455,000 2016 Third Series Sub-Series A Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2041. The 2016 Third Series Sub-Series A Subordinate Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the Commission's 2009 Series A Subordinate Revenue Bonds (\$20,990,000), 2009 Series B Subordinate Revenue Bonds (\$112,560,000), 2009 Series D Subordinate Revenue Bonds (\$75,700,000), 2010 Series B-2 Subordinate Revenue Bonds (\$35,545,000), 2011 Series A Subordinate Revenue Bonds (\$7,925,000), and for paying the cost of issuing the 2016 Third Series Sub-Series A Subordinate Revenue Refunding Bonds. The advance refunding of the 2009 Series A Subordinate Bonds, 2009 Series B Subordinate Bonds, 2009 Series D Subordinate Bonds, 2010 Series B-2 Subordinate Bonds, and 2011 Series A Subordinate Bonds allowed the Commission to reduce its debt service by approximately \$43.6 million. The transaction resulted in an economic gain of approximately \$30.4 million.

In October 2016, the Commission issued \$75,755,000 2016 Third Series Sub-Series B Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2025. The 2016 Third Series Sub-Series B Subordinate Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the Commission's 2008 Series A-2 Subordinate Revenue Bonds (\$18,905,000), 2008 Series B-2 Subordinate Revenue Bonds (\$47,785,000) and for paying the cost of issuing the 2016 Third Series Sub-Series B Subordinate Revenue Refunding Bonds. The advance refunding of the 2008 Series A-2 Subordinate Revenue Bonds and 2008 Series B-2 Subordinate Revenue Bonds allowed the Commission to reduce its debt service by approximately \$8.7 million. The transaction resulted in an economic gain of approximately \$8.0 million.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

In October 2016, the Commission issued \$79,865,000 2016 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2036. The 2016 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the Commission's 2010 Series A-2 Motor License Fund-Enhanced Subordinate Revenue Bonds (\$16,520,000), 2010 Series B-2 Motor License Fund-Enhanced Subordinate Revenue Bonds (\$9,705,000), 2011 Series A Motor License Fund-Enhanced Subordinate Revenue Bonds (\$56,860,000) and for paying the cost of issuing 2016 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds. The advanced refunding of the 2010 Series A-2 Motor License Fund-Enhanced Subordinate Revenue Bonds, 2010 Series B-2 Motor License Fund-Enhanced Subordinate Revenue Bonds and 2011 Series A Motor License Fund-Enhanced Subordinate Revenue Bonds allowed the Commission to reduce its debt service by approximately \$13.0 million. The transaction resulted in an economic gain of approximately \$9.5 million.

In January 2017, the Commission issued \$284,275,000 2017 Series A Subordinate Revenue Bonds at a fixed rate with a maturity date of December 1, 2046. The 2017 Series A Subordinate Revenue Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44 and Act 89, including reimbursing the Commission for certain payments previously made by the Commission to PennDOT and for paying the cost of issuing the 2017 Series A Subordinate Revenue Bonds.

In May 2017, the Commission issued \$291,850,000 2017 First Series Subordinate Revenue Refunding Bonds at a variable rate with a maturity date of December 1, 2041. The 2017 First Series Subordinate Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the Commission's 2009 Series A Subordinate Revenue Bonds (\$71,475,000) and 2009 Series D Subordinate Revenue Bonds (\$215,130,000) and for paying the cost of issuing the 2017 First Series Subordinate Revenue Refunding Bonds. The advance refunding of the 2009 Series A Subordinate Revenue Bonds and 2009 Series D Subordinate Revenue Bonds allowed the Commission to reduce its debt service by approximately \$125.6 million. The transaction resulted in an economic gain of approximately \$66.5 million.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 7 DEBT *(continued)*Mainline Debt Requirements and Recent Activity *(continued)*

Debt service requirements subsequent to May 31, 2017 related to the Mainline debt are as follows:

| <u>Year Ending May 31</u> | <u>Principal Maturities</u> | <u>Interest</u> <i>(In Thousands)</i> | <u>Total</u> |
|-------------------------------|---------------------------------|--|----------------------|
| 2018 | \$ 365,745 | \$ 449,518 | \$ 815,263 |
| 2019 | 323,290 | 464,231 | 787,521 |
| 2020 | 291,030 | 458,033 | 749,063 |
| 2021 | 557,685 | 449,845 | 1,007,530 |
| 2022 | 346,335 | 433,905 | 780,240 |
| 2023-2027 | 1,159,789 | 2,060,435 | 3,220,224 |
| 2028-2032 | 1,445,540 | 1,806,513 | 3,252,053 |
| 2033-2037 | 2,235,248 | 1,357,993 | 3,593,241 |
| 2038-2042 | 2,506,106 | 839,352 | 3,345,458 |
| 2043-2047 | 1,285,082 | 242,291 | 1,527,373 |
| 2048-2052 | 203,165 | 22,868 | 226,033 |
| | <u>\$ 10,719,015</u> | <u>\$ 8,584,984</u> | <u>\$ 19,303,999</u> |

Oil Company Franchise Tax Debt Requirements and Recent Activity

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.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 7 DEBT *(continued)*

Oil Company Franchise Tax Debt Requirements and Recent Activity *(continued)*

In September 2016, the Commission issued \$198,595,000 2016 Series A Oil Franchise Tax Senior Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2032. The 2016 Series A Oil Franchise Tax Senior Revenue Refunding Bonds were issued to provide funds for the advanced refunding of the Commission's 2003 Series C Oil Franchise Tax Senior Revenue Bonds (\$160,000,000), the advance refunding of a portion of 2009 Series A-2 Oil Franchise Tax Senior Revenue Bonds (\$2,120,000), the current refunding of 2006 Series A Oil Franchise Tax Senior Revenue Bonds (\$66,025,000) and for paying the cost of issuing the 2016 Series A Oil Franchise Tax Senior Revenue Refunding Bonds. The advanced refunding of the 2003 Series C Oil Franchise Tax Senior Revenue Bonds, 2009 Series A-2 Oil Franchise Tax Senior Revenue Bonds, and the current refunding of 2006 Series A Oil Franchise Tax Senior Bonds allowed the Commission to reduce its debt service by approximately \$44.4 million. The transaction resulted in an economic gain of approximately \$37.6 million.

In September 2016, the Commission issued \$115,395,000 2016 Series B Oil Franchise Tax Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2032. The 2016 Series B Oil Franchise Tax Subordinate Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the 2009 D-2 Oil Franchise Tax Subordinate Revenue Bonds (\$860,000), the current refunding of the 2006 Series B Oil Franchise Tax Subordinate Revenue Bonds (\$122,205,000), the current refunding of 2003 Series B Oil Franchise Tax Subordinate Revenue Bonds (\$16,440,000) and for paying the cost of issuing the 2016 Series B Oil Franchise Tax Subordinate Revenue Refunding Bonds. The advanced refunding of the 2009 Series D-2 Oil Franchise Tax Subordinate Bonds, the current refunding of the 2006 Series B Oil Franchise Tax Subordinate Revenue Bonds and 2003 Series B Oil Franchise Tax Subordinate Revenue Bonds allowed the Commission to reduce its debt service by approximately \$31.3 million. The transaction resulted in an economic gain of approximately \$24.6 million.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 7 DEBT *(continued)*Oil Company Franchise Tax Debt Requirements and Recent Activity *(continued)*

Debt service requirements subsequent to May 31, 2017 related to Oil Company Franchise Tax are as follows:

| <u>Year Ending May 31</u> | <u>Principal Maturities</u> | <u>Interest</u> <i>(In Thousands)</i> | <u>Total</u> |
|-------------------------------|---------------------------------|--|---------------------|
| 2018 | \$ 17,445 | \$ 33,193 | \$ 50,638 |
| 2019 | 18,170 | 32,490 | 50,660 |
| 2020 | 18,980 | 31,696 | 50,676 |
| 2021 | 18,035 | 30,786 | 48,821 |
| 2022 | 18,955 | 29,870 | 48,825 |
| 2023-2027 | 124,985 | 132,765 | 257,750 |
| 2028-2032 | 156,520 | 98,699 | 255,219 |
| 2033-2037 | 217,970 | 45,584 | 263,554 |
| 2038-2042 | 56,201 | 49,707 | 105,908 |
| | <u>\$ 647,261</u> | <u>\$ 484,790</u> | <u>\$ 1,132,051</u> |

Motor License Registration Fee Debt Requirements and Recent Activity

Pursuant to Section 20 of Act 3, the Commonwealth appropriates \$28.0 million of Act 3 revenues to the Commission annually. The \$28.0 million is payable to the Commission in the amount of \$2.3 million per month. The Registration Fee Revenue Bonds are secured by a pledge and assignment by the Commission to the Trustee of any receipts, revenues and other moneys received by the Trustee on or after the date of the Indenture from the Commission's allocation of Act 3 revenues and any income earned on any fund or account established pursuant to the Indenture.

In October 2015, the Commission amended the original indenture for the 2005 Registration Fee Revenue Refunding Bonds to allow for the conversion of \$231,425,000 Registration Fee Revenue Refunding Bonds Series B, C, and D of 2005 from a weekly rate mode to an index rate mode through a direct placement with DNT Asset Trust.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 7 DEBT *(continued)*Motor License Registration Fee Debt Requirements and Recent Activity
(continued)

Debt service requirements subsequent to May 31, 2017 related to Motor License Registration Fee debt are as follows:

| <u>Year Ending</u> <u>May 31</u> | <u>Principal</u> <u>Maturities</u> | <u>Interest</u> <i>(In Thousands)</i> | <u>Total</u> |
|-------------------------------------|---------------------------------------|--|-------------------|
| 2018 | \$ 8,185 | \$ 11,944 | \$ 20,129 |
| 2019 | 8,615 | 11,503 | 20,118 |
| 2020 | 9,070 | 11,045 | 20,115 |
| 2021 | 9,545 | 10,544 | 20,089 |
| 2022 | 10,045 | 10,036 | 20,081 |
| 2023-2027 | 58,720 | 41,469 | 100,189 |
| 2028-2032 | 75,850 | 24,127 | 99,977 |
| 2033-2037 | 95,680 | 12,559 | 108,239 |
| 2038-2042 | 118,985 | 4,158 | 123,143 |
| | <u>\$ 394,695</u> | <u>\$ 137,385</u> | <u>\$ 532,080</u> |

Defeased Bonds

In both the current and prior years, the Commission defeased certain revenue bonds by placing funds in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds were not included in the Commission's financial statements. At May 31, 2017 and 2016, the Commission had \$2,345.4 million and \$1,003.9 million, respectively, of defeased bonds outstanding.

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt debt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. The arbitrage liability recorded as other noncurrent liabilities is \$0.3 million and \$0.2 million for the fiscal years ended May 31, 2017 and 2016, respectively.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 7 DEBT *(continued)*

Swap Payments and Associated Debt

Net swap payments and related debt service requirements related to all sections subsequent to May 31, 2017, assuming current interest rates remain the same for the term of the agreements, are as follows:

| <u>Year Ending May 31</u> | <u>Principal Maturities</u> | <u>Interest</u> | <u>Hedging Derivative</u> | <u>Total</u> |
|-------------------------------|---------------------------------|-------------------|-------------------------------|---------------------|
| <i>(In Thousands)</i> | | | | |
| 2018 | \$ 140,000 | \$ 18,835 | \$ 30,873 | \$ 189,708 |
| 2019 | 105,590 | 17,208 | 30,873 | 153,671 |
| 2020 | 139,150 | 15,246 | 30,857 | 185,253 |
| 2021 | 200,000 | 12,093 | 30,881 | 242,974 |
| 2022 | 150,000 | 8,938 | 30,873 | 189,811 |
| 2023-2027 | - | 38,073 | 150,941 | 189,014 |
| 2028-2032 | 16,760 | 37,869 | 122,229 | 176,858 |
| 2033-2037 | 114,030 | 32,437 | 79,257 | 225,724 |
| 2038-2042 | 392,485 | 15,984 | 26,223 | 434,692 |
| | <u>\$ 1,258,015</u> | <u>\$ 196,683</u> | <u>\$ 533,007</u> | <u>\$ 1,987,705</u> |

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 7 DEBT (continued)Swap Payments and Associated Debt (continued)

Mainline net swap payments and related debt service requirements for the 2013 Series B Senior, 2014 Series B-1 Senior, 2016 Series A-2 Senior and 2017 First Series Subordinate Revenue Refunding bond issues are as follows:

| <u>Year Ending May 31</u> | <u>Principal Maturities</u> | <u>Interest</u> | <u>Hedging Derivative</u> | <u>Total</u> |
|-------------------------------|---------------------------------|-------------------|-------------------------------|---------------------|
| <i>(In Thousands)</i> | | | | |
| 2018 | \$ 140,000 | \$ 15,247 | \$ 22,955 | \$ 178,202 |
| 2019 | 105,590 | 13,621 | 22,955 | 142,166 |
| 2020 | 139,150 | 11,653 | 22,942 | 173,745 |
| 2021 | 200,000 | 8,512 | 22,959 | 231,471 |
| 2022 | 150,000 | 5,351 | 22,954 | 178,305 |
| 2023-2027 | - | 20,138 | 111,350 | 131,488 |
| 2028-2032 | - | 20,144 | 83,119 | 103,263 |
| 2033-2037 | 18,350 | 19,878 | 51,521 | 89,749 |
| 2038-2042 | 273,500 | 11,826 | 17,048 | 302,374 |
| | <u>\$ 1,026,590</u> | <u>\$ 126,370</u> | <u>\$ 377,803</u> | <u>\$ 1,530,763</u> |

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

| <u>Year Ending May 31</u> | <u>Principal Maturities</u> | <u>Interest</u> | <u>Hedging Derivative</u> | <u>Total</u> |
|-------------------------------|---------------------------------|------------------|-------------------------------|-------------------|
| <i>(In Thousands)</i> | | | | |
| 2018 | \$ - | \$ 3,588 | \$ 7,918 | \$ 11,506 |
| 2019 | - | 3,587 | 7,918 | 11,505 |
| 2020 | - | 3,593 | 7,915 | 11,508 |
| 2021 | - | 3,581 | 7,922 | 11,503 |
| 2022 | - | 3,587 | 7,919 | 11,506 |
| 2023-2027 | - | 17,935 | 39,591 | 57,526 |
| 2028-2032 | 16,760 | 17,725 | 39,110 | 73,595 |
| 2033-2037 | 95,680 | 12,559 | 27,736 | 135,975 |
| 2038-2042 | 118,985 | 4,158 | 9,175 | 132,318 |
| | <u>\$ 231,425</u> | <u>\$ 70,313</u> | <u>\$ 155,204</u> | <u>\$ 456,942</u> |

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

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 8 RETIREMENT BENEFITS

General Information about the Pension Plan

Plan Description

Substantially all employees of the Commission participate in the Pennsylvania State Employees' Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan established by the Commonwealth to provide pension benefits for employees of state government and certain independent agencies. Membership in SERS is mandatory for most Commission (and other state) employees. Article II of the Commonwealth's constitution assigns the authority to establish and amend the benefit provision of the plan to the General Assembly. SERS issues a publicly available financial report that can be obtained at www.sers.pa.gov.

Benefits Provided

SERS provides retirement, death, and disability benefits. Member retirement benefits are determined by taking years of credited service multiplied by final average salary multiplied by 2% multiplied by class of service multiplier. Commission employees participate in one of the following class of service categories: Class A, Class AA, Class A-3 or Class A-4. According to the State Employees' Retirement Code (SERC), all obligations of SERS will be assumed by the Commonwealth should SERS terminate.

Contributions

Section 5507 of the SERC (71 Pa. C.S. §5507) requires the Commonwealth and other employers whose employees are SERS members to make contributions to the fund on behalf of all active members and annuitants necessary to fund the liabilities and provide the annuity reserves required to pay benefits. SERS funding policy, as set by the board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employers' contributions at actuarially determined rates based on SERS funding valuation, expressed as a percentage of annual retirement covered payroll, such that they, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. However, Act 2010-120 imposes rate increase collars (limits on annual rate increases) on employer contributions. The collar for Commonwealth fiscal year 2015-2016 was 4.5% and will no longer apply effective July 1, 2017. The Commission's retirement contribution, as a percentage of covered payroll, by class is as follows:

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 8 RETIREMENT BENEFITS *(continued)*General Information About the Pension Plan *(continued)*

| <u>Year Ended</u> <u>June 30</u> | <u>Class A</u> | <u>Class AA</u> | <u>Class A-3</u> | <u>Class A-4</u> |
|-------------------------------------|----------------|-----------------|------------------|------------------|
| 2017 | 23.96% | 29.95% | 20.70% | 20.70% |
| 2016 | 19.89% | 24.86% | 17.18% | 17.18% |
| 2015 | 15.94% | 19.92% | 13.77% | 13.77% |

Contributions to the pension plan from the Commission were \$33.3 and \$27.9 million for the fiscal years ended May 31, 2017 and 2016, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At May 31, 2017, the Commission reported a liability of \$379.2 million for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on a projected-contribution method. This methodology applies the most recently calculated contribution rates for Commonwealth fiscal year 2017-2018, from the December 31, 2016 funding valuation, to the expected funding payroll for the allocation of the 2016 amounts. At December 31, 2016, the Commission's proportion was 1.97%, which was an increase of .06% from its proportion measured as of December 31, 2015.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 8 RETIREMENT BENEFITS *(continued)*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions *(continued)*

For the fiscal year ended May 31, 2017, the Commission recognized pension expense of \$53.5 million. At May 31, 2017, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| | <i>(In Thousands)</i> | |
| Differences between expected and actual experience | \$ 5,473 | \$ 8,484 |
| Net difference between projected and actual investment earnings on pension plan investments | 31,866 | - |
| Changes of assumptions | 23,161 | - |
| Differences between employer contributions and proportionate share of contributions | - | 1,054 |
| Changes in proportion | 7,560 | 8,751 |
| Commission contributions subsequent to measurement date | 16,299 | - |
| | <u>\$ 84,359</u> | <u>\$ 18,289</u> |

The \$16.3 million reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended May 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended May 31</u> | <i>(in Thousands)</i> | |
|--------------------------|-----------------------|--------|
| 2018 | \$ | 15,448 |
| 2019 | | 15,448 |
| 2020 | | 13,431 |
| 2021 | | 4,799 |
| 2022 | | 645 |

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 8 RETIREMENT BENEFITS *(continued)*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions *(continued)*

At May 31, 2016, the Commission reported a liability of \$346.9 million for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on a projected-contribution method. This methodology applies the most recently calculated contribution rates for Commonwealth fiscal year 2016-2017, from the December 31, 2015 funding valuation, to the expected funding payroll for the allocation of the 2015 amounts. At December 31, 2015, the Commission's proportion was 1.91%, which was a decrease of .08% from its proportion measured as of December 31, 2014.

For the fiscal year ended May 31, 2016, the Commission recognized pension expense of \$42.8 million. At May 31, 2016, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| | <i>(In Thousands)</i> | |
| Differences between expected and actual experience | \$ 7,025 | \$ - |
| Net difference between projected and actual investment earnings on pension plan investments | 35,326 | - |
| Changes of assumptions | 10,307 | - |
| Differences between employer contributions and proportionate share of contributions | - | 624 |
| Changes in proportion | - | 11,569 |
| Commission contributions subsequent to measurement date | 13,623 | - |
| | <u>\$ 66,281</u> | <u>\$ 12,193</u> |

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 8 RETIREMENT BENEFITS *(continued)*

Actuarial Method and Assumptions

Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The 18th *Investigation of Actuarial Experience* study for the period 2011 – 2015 was released in March 2016. The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates). Some assumption adjustments increased projected cost and some decreased projected cost, but the overall result was a slight increase to the net pension liability in 2015 upon adoption.

The board adopted the actuarial assumptions set forth in the 18th *Investigation of Actuarial Experience* at its March 2016 meeting. The study can be viewed at www.SERS.pa.gov.

In addition to the five-year experience study, SERS reviews its investment return assumption in light of economic conditions every year as part of its annual valuation. Based on this work, SERS actuary recommended, and SERS Board adopted at the April 2017 meeting, a reduction in the targeted investment return rate assumption to 7.25% for the 2016 actuarial valuation from 7.5% used for the 2015 actuarial valuation based on the experience study. In addition, SERS actuary recommended, and SERS Board adopted, a reduction in the inflation rate to 2.6% for the 2016 valuation from 2.75% used for the 2015 actuarial valuation based on the experience study. The change in inflation rate also impacted the general salary growth rate, which was lowered to 2.9% for the 2016 valuation from 3.05% used for the 2015 valuation based on the experience study.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 8 RETIREMENT BENEFITS *(continued)*Actuarial Methods and Assumptions *(continued)*

The following methods and assumptions were used in the actuarial valuation for the December 31, 2016 and 2015 measurement dates (except as noted in the previous paragraph):

| | |
|-----------------------------------|--|
| Actuarial cost method | Entry age |
| Amortization method | Straight-line amortization of investments over five years and amortization of assumption changes and non-investment gains/losses over the average expected remaining service lives of all employees that are provided benefits |
| Investment rate of return | 7.25% net of expenses, including inflation |
| Projected salary increases | Average of 5.60% with range of 3.70% - 8.90%, including inflation |
| Asset valuation method | Fair (market) value |
| Inflation | 2.60% |
| Mortality rate | Projected RP-2000 Mortality Tables adjusted for actual plan experience and future improvement |
| Cost-of-living adjustments (COLA) | Ad hoc |

The long-term expected real rate of return on pension plan investments is determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of manager fees and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's current and target asset allocation as of December 31, 2016 and 2015 are summarized in the following tables:

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 8 RETIREMENT BENEFITS *(continued)*Actuarial Methods and Assumptions *(continued)*

As of December 31, 2016:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-term Expected Rate of Return</u> |
|----------------------|--------------------------|--|
| Private Equity | 16.00% | 8.00% |
| Global Public Equity | 43.00% | 5.30% |
| Real Estate | 12.00% | 5.44% |
| Hedge Funds | 12.00% | 4.75% |
| Fixed Income | 14.00% | 1.63% |
| Cash | 3.00% | -0.25% |
| Total | <u>100.00%</u> | |

As of December 31, 2015:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-term Expected Rate of Return</u> |
|-------------------------|--------------------------|--|
| Alternative Investments | 15.00% | 8.50% |
| Global Public Equity | 40.00% | 5.40% |
| Real Assets | 17.00% | 4.95% |
| Diversifying Assets | 10.00% | 5.00% |
| Fixed Income | 15.00% | 1.50% |
| Liquidity Reserve | 3.00% | 0.00% |
| Total | <u>100.00%</u> | |

The information above is based on a 7.5% assumed investment rate of return, which was in place during 2016 and 2015. Targets and/or expected returns may be updated to reflect the new assumed investment rate of return in the upcoming year.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 8 RETIREMENT BENEFITS *(continued)*Discount Rate

The discount rate used to measure the total pension liability was 7.25% and 7.50% as of December 31, 2016 and 2015, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary and as set by statute. Based on the assumptions, SERS fiduciary net position was projected to be available to make all projected future benefit payments of current active and non-active SERS members. Therefore, the long-term expected rate of return on SERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Commission's Proportionate Share of the Net Pension Liability to Change in the Discount Rate

The following schedule presents the Commission's proportionate share of the 2016 and 2015 net pension liability calculated using the discount rate of 7.25% and 7.50%, respectively. It also shows what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

| | 1% Decrease 6.25% | Current Discount Rate 7.25% | 1% Increase 8.25% |
|---|----------------------------------|---|----------------------------------|
| Commission's share of the net pension liability as of the 12/31/16 measurement date | \$ 469,244 | \$ 379,173 | \$ 302,040 |
| | 1% Decrease 6.50% | 12/31/15 Discount Rate 7.50% | 1% Increase 8.50% |
| Commission's share of the net pension liability as of the 12/31/15 measurement date | \$ 430,973 | \$ 346,946 | \$ 274,898 |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued SERS financial report.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 8 RETIREMENT BENEFITS *(continued)*

Payables to the Pension Plan

As of May 31, 2017 and 2016, the Commission reported a \$16.3 million and \$5.6 million liability, respectively, within the Accounts payable and accrued liabilities on the Statement of Net Position for the Commission's share of contributions that had not yet been paid to SERS.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Litigation

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

Open Purchase Order Commitments

The Commission had open purchase order commitments of approximately \$969.9 million and \$925.1 million at May 31, 2017 and 2016, respectively.

Act 44 and Act 89

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

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 9 **COMMITMENTS AND CONTINGENCIES** *(continued)*

Act 44 and Act 89 *(continued)*

The Funding Agreement also granted the Commission the option to lease the portion of Interstate 80 (I-80) located in the Commonwealth from PennDOT upon, among other things, the approval of the Federal Highway Administration (FHWA) of the conversion of such portion into a toll road (the Conversion). The Conversion was not approved by FHWA and neither the Commission nor PennDOT appealed the decision. The Commission did not exercise its option to lease such portion of I-80, and the period during which the Commission could exercise its option under the Funding Agreement lapsed on October 14, 2010 without the Commission effectuating Conversion or having the ability to do so in the future. Under existing law, including Act 89, all legal, financial and operational responsibility for I-80 remains with PennDOT.

Pursuant to Act 44 and the Funding Agreement, because the Conversion did not occur, the Commission was obligated to make scheduled annual payments, payable in equal quarterly installments, of \$450 million to PennDOT through 2057 with \$200 million of the scheduled annual payment supporting road and bridge projects and \$250 million supporting transit projects throughout the Commonwealth. See paragraphs below as to subsequent changes to such annual payments.

On November 25, 2013, Act 89 was enacted providing substantial revision to the Commission's transportation funding obligations under Act 44 and authorized the Commission and PennDOT to immediately amend the Funding Agreement to reflect the statutory provisions of Act 89. On April 4, 2014, the Commission and PennDOT executed Amendment Number One to the Lease and Funding Agreement (the *Act 89 Amendment* and together with the Act 44 Funding Agreement, the *Amended Funding Agreement*). The Amended Funding Agreement terminates on October 14, 2057. In accordance with Act 89 and the Amended Funding Agreement, the Commission's aggregate annual payment to PennDOT for fiscal year 2014 through fiscal year 2022 remains at \$450 million and, in accordance with Act 89, the Commission must pay at least \$30 million of such amount from current revenues. Commencing in fiscal year 2023 through the term of the Amended Funding Agreement, the Commission's aggregate annual payment to PennDOT is \$50 million, which shall be paid from then current revenues.

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

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Act 44 and Act 89 *(continued)*

The Commission is required by the terms of the Amended Funding Agreement and Act 44 to fix and adjust tolls at levels that will generate revenues (together with other available moneys) sufficient to pay, among other things, amounts to PennDOT pursuant to the Amended Funding Agreement when due and other obligations of the Commission, and the Commission has covenanted in the Subordinate Indenture to set tolls at a level sufficient to meet its coverage obligations taking into account any additional debt incurred in order to make such payments. The Commission believes that Turnpike System revenues should enable it to satisfy its reduced payment obligations as set forth in the Amended Funding Agreement.

Due to the significance of the quarterly payments under Act 44 and Act 89, the Commission currently does not have excess cash from operations to fully fund its required payments to PennDOT from current revenues. Therefore, the Commission plans to continue to increase toll rates annually and to issue debt through fiscal year 2022 to finance the majority of these payments. There can be no assurance that the Commission will be able to continue to issue debt on terms that are acceptable, or at all, to finance these obligations. The sole and exclusive remedy for the failure to make the required payments to PennDOT under the Amended Funding Agreement is that all actions of the Commission taken by a vote of the Commissioners thereafter must be approved by a unanimous vote of all Commissioners until such time as the payment is made. However, a unanimous vote is not required if it would prevent the Commission from complying with covenants with "current bondholders, debt holders or creditors having such status as of the Effective Date," which under the Amended Funding Agreement is defined as October 14, 2007. These voting procedures have not become effective as the Commission has not missed any payments under the Amended Funding Agreement.

Act 44 and Act 89 provide that all required payments under the Amended Funding Agreement or as required by Act 44 or Act 89 shall be subordinate obligations of the Commission payable solely from the General Reserve Fund after meeting all other Commission requirements pursuant to any financial documents, financial covenants, liquidity policies or agreements in effect at the Commission.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Interest Rate Swaps

The fair value and notional amounts of derivative instruments outstanding at May 31, 2017 and May 31, 2016, classified by type and the changes in fair value of such derivative instruments for the years then ended as reported in the fiscal year 2017 and fiscal year 2016 financial statements are as follows:

| | Full | | Changes in Fair Value | | Fair Value at May 31, 2017 | | Notional |
|--|---------------------|--------------|------------------------------|---------------------------------|----------------------------|---------------------------------|------------|
| | May 31, 2016 | Termination* | Classification | Amount <i>(In Thousands)</i> | Classification | Amount <i>(In Thousands)</i> | |
| <i>Cash flow hedges</i> | | | | | | | |
| Pay-fixed interest rate swap | \$ (133,791) | \$ - | Deferred (outflows)/inflows | \$ 29,666 | Noncurrent liabilities | \$ (104,125) | \$ 977,305 |
| <i>Investment derivative instruments</i> | | | | | | | |
| Basis swaps | 13,923 | - | Investment earnings/(losses) | (4,103) | Long-term liabilities | 9,820 | 924,806 |
| Total PTC | \$ (119,868) | \$ - | | \$ 25,563 | | \$ (94,305) | |

| | Full | | Changes in fair value | | Fair Value at May 31, 2016 | | Notional |
|--|--------------------|--------------------|------------------------------|---------------------------------|----------------------------|---------------------------------|------------|
| | May 31, 2015 | Termination* | Classification | Amount <i>(In Thousands)</i> | Classification | Amount <i>(In Thousands)</i> | |
| <i>Cash flow hedges</i> | | | | | | | |
| Pay-fixed interest rate swap | \$ (109,323) | \$ - | Deferred (outflows)/inflows | \$ (24,468) | Noncurrent liabilities | \$ (133,791) | \$ 685,455 |
| <i>Investment derivative instruments</i> | | | | | | | |
| Basis and fair value swaps | 23,317 | (13,260) | Investment earnings/(losses) | 3,866 | Long-term liabilities | 13,923 | 924,806 |
| Total PTC | \$ (86,006) | \$ (13,260) | | \$ (20,602) | | \$ (119,868) | |

* For further detail on this full termination, see the Recent Activity section of this note.

Fair Values

At May 31, 2017 and 2016, the fair values of the Commission's derivative instruments were estimated beginning with the mid-market valuation. The mid-market valuation of the Commission's derivative instruments was estimated using the zero-coupon discounting method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bonds due on the date of each future net settlement payments on the swaps.

The fair value under GASB 72 then incorporated into the above described mid-market valuation: 1) the credit risk of either the Commission or its counterparty (for a liability position or asset position, respectively) i.e. nonperformance risk; and 2) the bid/offer spread that would be charged to the Commission in order to transact. As the valuations are based on discounting future net cash flows to a single current amount, the approach being utilized is the income approach. The fair values rely primarily on Level 2 Inputs (observable inputs) – such as LIBOR rates to build the yield curve.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Interest Rate Swaps *(continued)*

Recent Activity

During fiscal year 2016, the Commission received \$4.8 million from executing partial terminations for portions of its SIFMA/LIBOR basis swaps; in exchange for these payments, the periodic cash flows on the swaps were partially terminated until the dates noted in the table below:

| <u>Date of Reversal</u> | <u>Initial Notional Amount</u> | <u>Underlying Bonds</u> | <u>Counterparty</u> | <u>Transaction Type</u> | <u>Partial Termination To</u> | <u>Amount Received</u> |
|-------------------------|--------------------------------|-------------------------|-----------------------|-------------------------|-------------------------------|------------------------|
| 7/9/2015 | \$ 136,700,000 | Mainline 2010 B | Deutsche Bank | SIFMA/LIBOR Basis | 6/1/2018 | \$ 2,255,000 |
| 11/9/2015 | 136,700,000 | Mainline 2009 A | Goldman Sachs MMDP | SIFMA/LIBOR Basis | 9/1/2018 | <u>2,545,000</u> |
| | | | | | | <u>\$ 4,800,000</u> |

On June 1, 2015, a portion of the Commission's 2014 Series B-2 Senior Bonds were refunded. Portions of the Commission's 2014 Series B-2 related swaps were deemed terminated and are now associated with portions of the 2013 Series B Bonds. The fair values at the time of the deemed termination were \$371,386 with respect to the JP Morgan swap, \$185,595 with respect to the Bank of America swap, and \$186,207 with respect to the Bank of New York Mellon swap. These amounts are being amortized until December 1, 2030 which is the final maturity of the swaps.

On February 2, 2016, the Commission fully terminated its Mainline SIFMA Fixed Receiver investment derivative with the Bank of New York in exchange for receiving a termination payment totaling \$12.8 million. The notional amount and fair value at the time of termination were \$118.0 million and \$13.3 million, respectively.

On June 21, 2016, the Commission issued 2016 Series A-2 Senior Revenue Bonds primarily to refund various maturing variable rate bonds. The 2016 Series A-2 Bonds specifically included refunding the December 1, 2016 maturities of the 2012 Series B and the 2014 Series B-2 Bonds. As a result, the \$86.3 million of the Commission's Mainline LIBOR Fixed Payer swaps associated with those bonds were deemed terminated and are now associated with the 2016 Series A-2 Senior Bonds. The fair values at the time of deemed termination were a negative \$2.7 million with respect to the JP Morgan swap, a negative \$1.3 million with respect to the Bank of America swap, and a negative \$2.5 million with respect to the Bank of New York Mellon swap. These amounts are being amortized until December 1, 2030 which is the final maturity of the swaps.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 9 COMMITMENTS AND CONTINGENCIES (continued)

Interest Rate Swaps (continued)

Recent Activity (continued)

On September 7, 2016, the Commission issued 2016 Series A Senior Oil Franchise Tax Bonds to provide funds for the advance refunding of its 2003 Series C Senior Oil Franchise Tax Bonds. The Commission's Oil Franchise Tax investment derivatives with a total notional amount of \$400.0 million are now associated with the 2009 Series B and 2016 Series A Oil Franchise Tax Bonds.

On April 26, 2017, the Commission entered into a Cancellable LIBOR Fixed Payer swap with Royal Bank of Canada. The swap was executed in order to hedge the interest rate on the Commission's 2017 First Series Refunding Subordinate Revenue Bonds. The Commission purchased an option to terminate the trade at par beginning on June 1, 2022 and semiannually on each December 1st and June 1st thereafter. Under the terms of the transaction, the Commission pays a fixed rate of 2.5125% and receives 70% of 3-month LIBOR. The initial notional amount of this swap was \$291.9 million.

Following is a summary of the hedging derivatives in place as of May 31, 2017. All of items are fixed interest rate swap types. These hedging derivatives contain risks and collateral requirements as described below (in thousands):

| Objective | Notional Amount | Effective Date | Maturity Date | Terms | Counterparty | Moody's/S&P/Fitch | Book Fair Value |
|---|-------------------|----------------|---------------|---|--|--|---|
| 1. Hedge of changes of cash flows of 2014 Series B-1 Bonds (formerly 2008 Series B-1 & 2011 Series C Bonds) | \$ 100,000 | 5/20/2014 | 12/1/2038 | Pay 4.887%, receive SIFMA | Goldman Sachs MMDP Merrill Lynch CS* Morgan Stanley CS | Aa2/AA-/NR Baa1/BBB+/A A3/BBB+/A | \$ (10,975) (10,983) (10,971) <u>(32,929)</u> |
| | 100,000 | 5/20/2014 | 12/1/2038 | | | | |
| | 100,000 | 5/20/2014 | 12/1/2038 | | | | |
| | <u>300,000</u> | | | | | | |
| 2. Hedge of changes of cash flows of 2016 Series A-2 Bonds (formerly 2014B-2 & 2012B Bonds) | 21,576 | 6/2/2014 | 12/1/2030 | Pay 4.403%, receive 67.00% of 1-month LIBOR | Bank of America* Bank of New York Mellon JPMorgan Chase Bank | A1/A+/A+ Aa2/AA-/AA Aa3/A+/AA- | 681 682 1,337 <u>2,700</u> |
| | 21,576 | 6/2/2014 | 12/1/2030 | | | | |
| | 43,125 | 6/2/2014 | 12/1/2030 | | | | |
| | <u>86,277</u> | | | | | | |
| 3. Hedge of changes of cash flows of 2013 Series B Bonds (formerly 2009 Series C & 2011 Series D Bonds) | 16,944 | 7/23/2013 | 12/1/2030 | Pay 4.403%, receive 67.00% of 1-month LIBOR | Bank of America* JPMorgan Chase Bank Bank of New York Mellon | A1/A+/A+ Aa3/A+/AA- Aa2/AA-/AA | (837) (1,675) (837) <u>(3,349)</u> |
| | 33,865 | 7/23/2013 | 12/1/2030 | | | | |
| | 16,944 | 7/23/2013 | 12/1/2030 | | | | |
| | <u>67,753</u> | | | | | | |
| 4. Hedge of changes of cash flows on the 2005 Series B, C, D, Bonds | 57,860 | 12/30/2013 | 7/15/2041 | Pay 4.2015%, receive SIFMA | Bank of New York Mellon JPMorgan Chase Bank Merrill Lynch CS* Morgan Stanley CS | Aa2/AA-/AA Aa3/A+/AA- Baa1/BBB+/A A3/BBB+/A | (10,731) (17,057) (17,058) (17,058) <u>(61,904)</u> |
| | 57,845 | 8/17/2005 | 7/15/2041 | | | | |
| | 57,860 | 8/17/2005 | 7/15/2041 | | | | |
| | 57,860 | 8/17/2005 | 7/15/2041 | | | | |
| | <u>231,425</u> | | | | | | |
| 5. Hedge of changes of cash flows on the 2017 Series A Subordinate Bonds | 291,850 | 5/2/2017 | 12/1/2041 | Pay 2.5125%, receive 70.00% of 3-month LIBOR | Royal Bank of Canada | A1/AA-/AA | (8,643) |
| Total | <u>\$ 977,305</u> | | | | | | <u>\$ (104,125)</u> |

1-month LIBOR was 1.06033% at May 31, 2017
3-month LIBOR was 1.21000% at May 31, 2017
SIFMA was 0.76% at May 31, 2017

* On November 15, 2012, the Commission executed an amendment to the swap agreements to include Merrill Lynch Derivative Products as guarantor. Merrill Lynch Derivative Products credit ratings were Aa3/AA/NR (Moody's/S&P/Fitch) as of May 31, 2017.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Interest Rate Swaps *(continued)*

- **Credit Risk** – The Commission is at risk that a counterparty will not fulfill their obligations under the agreement. Specifically, the Commission is exposed to credit risk for hedging derivatives that have positive full values from the counterparty and investment derivatives (see Note 4) that have positive fair values. At May 31, 2017, the Commission is exposed to credit risk with respect to the (A), (C), (E) and (F) investment derivatives listed in Note 4 as well as hedging derivative #2. However, should interest rates change and the fair values of the other swaps become positive, the Commission would have additional credit risk exposure.

To mitigate the exposure to credit risk, the swap agreements include collateral provisions in the event of downgrades to the swap counterparties' credit ratings along with the fair values of the swaps exceeding certain thresholds specified in the swap agreement. The Commission's derivative agreements contain netting provisions, under which transactions executed with a single counterparty within a credit are netted to determine collateral amounts. 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. At May 31, 2017, the Commission had net credit risk exposure to three counterparties pursuant to the provisions of the respective derivative agreements. One counterparty has posted collateral in the amount of \$5.3 million. The other two counterparties were not required to post collateral as their values at year end were below the collateral threshold levels.

- **Interest Rate Risk** – The Commission will be exposed to variable interest rates if the swap provider for a variable-to-fixed swap agreement defaults or if a variable-to-fixed swap is terminated.
- **Market-access Risk** – The Commission will be exposed to market-access risk for the hedging derivatives 1, 2 and 3 in the summary of hedging derivatives table because the maturity date of these derivatives is longer than the maturity date of the related debt.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Interest Rate Swaps *(continued)*

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

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Interest Rate Swaps *(continued)*

- **Collateral Requirements** – The Commission’s derivative instruments related to its Mainline Turnpike Revenue Bonds require the Commission to post collateral in the form of eligible securities or cash if its senior credit rating falls below specified thresholds. These thresholds vary from agreement to agreement, with most in the “A3” (Moody’s Investors Service) and “A-” (Standard & Poor’s and Fitch Rating Service) levels. The Commission’s Mainline senior bond rating was “A1” from Moody’s and “A” from Standard & Poor’s and “A+” from Fitch at May 31, 2017. The Commission’s Mainline subordinate bond rating was “A3” from Moody’s and “A-” from Standard & Poor’s and “A-” from Fitch at May 31, 2017. Based on May 31, 2017 full values, the Commission could be required to post \$167.2 million in collateral for its derivative instruments if its ratings fall below the agreement thresholds.

The Commission’s derivative instruments related to its Oil Company Franchise Tax Revenue Bonds require the Commission to post collateral in the form of eligible securities or cash if its credit rating falls below specified thresholds. These thresholds vary from agreement to agreement, with most in the “A3” (Moody’s Investors Service) and “A-” (Standard & Poor’s and Fitch Rating Service) levels. The Commission’s Oil Company Franchise Tax senior bond rating is currently “Aa3” from Moody’s and “AA” from Standard & Poor’s. Based on May 31, 2017 full values, the Commission could be required to post \$3.5 million in collateral for its derivative instruments if its ratings fall below the agreements thresholds.

The Commission’s derivative instruments related to its Motor Vehicle Registration Fee Revenue Bonds require the Commission to post collateral in the form of eligible securities or cash if its credit rating falls below specified thresholds and/or in the event of certain uncured insurer events of default. These thresholds vary from agreement to agreement. The Commission’s Motor Vehicle Registration Fee Revenue bond rating was “Aa3” from Moody’s, “A” from Standard & Poor’s and “AA-” from Fitch at May 31, 2017. Based on May 31, 2017 full values, the Commission could be required to post \$80.5 million in collateral for its derivative instruments if its ratings fall below the agreement thresholds.

NOTE 10 RELATED-PARTY TRANSACTIONS

The Commission incurred charges of \$49.7 million and \$48.4 million for the fiscal years ended May 31, 2017 and 2016, respectively, primarily related to its use of the Commonwealth’s State Police in patrolling the Turnpike System.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 11 POSTEMPLOYMENT BENEFITS

Plan Description

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

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

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

Management and Supervisory Union Employees/Retirees

The benefits funded by the Trust include certain post-employment medical, prescription drug, dental and vision benefits to management and supervisory union employees based upon their date of hire and years of service. Eligibility categories include:

- Employees hired before March 1, 2016, 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 last five years of service must be with the Commission.
- Employees hired on or after March 1, 2016, who have reached 30 years of service and are under age 60; benefit eligibility changes from 30 to 25 years for retirees 60 years of age or older. The last 10 years of service must be with the Commission. (Some current and previous Commonwealth employees hired on or after this date would be grandfathered under the first eligibility category.)

The same coverage is provided to surviving spouses or domestic partners and dependents of management and supervisory union retirees who retired on or after March 1, 2001. Surviving spouses or domestic partners of retirees who retired prior to March 1, 2001 may purchase medical coverage at the group rate and dependents are offered coverage under COBRA. Medicare Part B premiums are paid by the retiree, spouse or dependent if age 65 or over, or under age 65 and disabled.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 11 POSTEMPLOYMENT BENEFITS *(continued)*

Plan Description *(continued)*

Non-Supervisory Union Employees/Retirees

The benefits also include certain post-employment medical and prescription drug benefits to non-supervisory union employees who had satisfied the eligibility requirements in the applicable collective bargaining agreement.

- For Local 30 professionals who were hired prior to January 1, 2011 and Local 250 and 77 employees who were hired prior to February 1, 2016, the earlier of completion of 20 years of Credited Service or the later of attainment of age 60 and completion of 10 years of Credited Service. The last five years of Credited Service must be with the Commission.
- For Local 30 professionals who were hired on or after January 1, 2011 and Local 250 and 77 employees who were hired on or after February 1, 2016, the earlier of completion of 30 years of Credited Service or the later of attainment of age 60 and completion of 25 years of Credited Service. The last 10 years of Credited Service must be with the Commission.

The same coverage is provided to spouses or domestic partners and dependents of eligible non-supervisory union retirees until the death of the retiree. Surviving spouses or domestic partners are required to contribute the full cost of coverage and dependents are offered coverage under COBRA.

Funding Policy

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

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 11 POSTEMPLOYMENT BENEFITS *(continued)*Annual OPEB Cost and Net OPEB Asset

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

| | Year ended May 31 | | |
|--|--------------------------------------|-------------------|-------------------|
| | 2017 | 2016 | 2015 |
| | <i>(Dollar Amounts in Thousands)</i> | | |
| Normal cost | \$ 10,501 | \$ 10,975 | \$ 9,536 |
| Trust expense assumption | 150 | 150 | 150 |
| Amortization | (153) | (394) | 2,235 |
| Interest | <u>623</u> | <u>637</u> | <u>762</u> |
| Annual required contribution (ARC) | 11,121 | 11,368 | 12,683 |
| Interest on net OPEB asset | (7,405) | (6,820) | (5,540) |
| Adjustment to ARC | <u>15,848</u> | <u>14,596</u> | <u>13,255</u> |
| Annual OPEB cost | 19,564 | 19,144 | 20,398 |
| Employer contributions | <u>28,176</u> | <u>28,143</u> | <u>46,180</u> |
| Increase in net OPEB asset | 8,612 | 8,999 | 25,782 |
| Net OPEB asset - beginning of year | <u>113,930</u> | <u>104,931</u> | <u>79,149</u> |
| Net OPEB asset - end of year | <u>\$ 122,542</u> | <u>\$ 113,930</u> | <u>\$ 104,931</u> |
| Percentage of annual OPEB cost contributed | 144.0% | 147.0% | 226.4% |

The ARC and its components (normal cost, trust expense assumption, Unfunded Actuarial Accrued Liability (UAAL [or Funding Excess] amortization, and mid-year contribution interest) in the table presented above were obtained from the actuarial valuations, prepared by an independent actuary. The fiscal year 2017 ARC and Annual OPEB cost amounts were obtained from a January 1, 2016 valuation. The fiscal year 2016 ARC and Annual OPEB cost amounts were obtained from a January 1, 2015 interim valuation. The fiscal year 2015 ARC and Annual OPEB cost amounts were obtained from a January 1, 2014 valuation.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 11 POSTEMPLOYMENT BENEFITS *(continued)*

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

Retiree and spouse contribution rates at May 31, 2017 are as follows:

- Management and supervisory union employees and union employees who retired prior to July 1, 1998 and October 1, 1997, respectively – the retiree/spouse contributes the full cost of coverage less the Commission’s monthly subsidy of \$19.28 once the retiree turns 65.
- Union employees who retired on October 1, 1997 or later – the retiree/spouse contributes the full cost of coverage less the Commission’s monthly subsidy of \$73.50 when the retiree or spouse reach age 65.
- Management and supervisory union employees who retire on or after March 1, 2016, and Local 250 and 77 employees who retire after February 1, 2016, as well as Local 30 professionals who retire after January 1, 2014, must participate in a wellness program or contribute 5% of the premium if less than age 65. This mandate also applies to spouses under age 65 and other adult dependents age 19 to 26.
- Surviving spouses and domestic partners are paying 100% of the premiums, except for surviving spouses of Management and supervisory union employees who retired after March 1, 2001.

Funding Status and Funding Progress

The funding status of the plan, by actuarial valuation date, was as follows:

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability (AAL)</u> | <u>Unfunded AAL (Funding Excess)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>Unfunded AAL (Funding Excess) as a Percentage of Covered Payroll</u> |
|--------------------------------------|----------------------------------|--|--------------------------------------|---------------------|------------------------|---|
| <i>(Dollar Amounts in Thousands)</i> | | | | | | |
| January 1, 2016 | \$ 331,568 | \$ 330,395 | \$ (1,173) | 100.4% | \$ 124,458 | -0.9% |
| January 1, 2014 | 271,265 | 283,133 | 11,868 | 95.8% | 126,699 | 9.4% |

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

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 11 POSTEMPLOYMENT BENEFITS *(continued)*Actuarial Methods and Assumptions

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

A summary of the actuarial methods and assumptions used in the January 1, 2016 valuation is as follows:

| | |
|--|-----------------------|
| Actuarial cost method | Projected-unit credit |
| Discount rate | 6.5% |
| Rate of return on assets | 6.5% |
| Inflation rate | 2.5% |
| Amortization method | Level dollar |
| Amortization period: | |
| ▪ UAAL as of March 1, 2012 | 10 years (closed) |
| ▪ Subsequent changes | 10 years (open) |
| Asset valuation method | Fair value |
| Benefit assumption – increases/decreases | No changes |

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 11 POSTEMPLOYMENT BENEFITS *(continued)*Actuarial Methods and Assumptions *(continued)*

Health Cost Trend: The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 2014 utilizing the baseline assumptions included in the model, except real GDP of 1.8% and inflation of 2.5% for medical and prescription drug benefits. Further adjustments apply based on percentage of costs associated with administrative expenses, aging factors, potential excise taxes due to healthcare reform, and other healthcare reform provisions. The health cost trend assumption for medical and prescription benefits at sample years is as follows:

| <u>Valuation Year</u> | <u>Pre-65 Trend</u> | <u>Post-65 Trend</u> |
|-----------------------|---------------------|----------------------|
| 2016 | 6.2% | 7.9% |
| 2017 | 5.9% | 6.6% |
| 2018 | 5.2% | 5.2% |
| 2019 | 5.2% | 5.2% |
| 2020 | 5.2% | 5.2% |
| 2025 | 5.2% | 5.2% |
| 2030 | 5.6% | 5.3% |
| 2035 | 6.1% | 5.3% |
| 2040 | 5.7% | 5.1% |
| 2050 | 5.5% | 5.0% |
| 2060 | 5.4% | 5.2% |
| 2070 | 4.6% | 4.9% |

The health cost trend assumption for dental and vision benefits and premiums are assumed to be 4.0% per year.

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

NOTE 12 SELF-INSURANCE

The Commission is exposed to various risks of losses such as theft of, damage to, and destruction of assets, errors and omissions, torts, injuries to employees and natural disasters. The Commission has purchased commercial all risk property insurance and stop loss insurance for employee medical and prescription benefits coverage. The Commission remains self-insured for dental and vision benefits, torts and injuries to employees as well as medical and prescription benefits up to stop loss coverages. No settlements exceeded insurance coverage for each of the past three years.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 12 SELF-INSURANCE *(continued)*

The Commission recorded a liability of \$44.3 million and \$40.1 million for loss and loss adjustment expenses on claims relating to self-insurance that have been incurred but not reported as of May 31, 2017 and 2016, respectively. The self-insurance liabilities recorded as accounts payable and accrued liabilities are \$4.4 million and \$4.8 million for the fiscal years ended May 31, 2017 and 2016, respectively. The self-insurance liabilities recorded as other noncurrent liabilities are \$39.9 million and \$35.3 million for the fiscal years ended May 31, 2017 and 2016, respectively. This liability is based on GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be recorded if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability is calculated based on the Commission's past loss experience. The liability for vehicle and general tort was not discounted. The liability for workers' compensation was discounted using a rate of 2.50% for the fiscal years ended May 31, 2017 and 2016. 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, 2017 and 2016. 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

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 12 SELF-INSURANCE (continued)

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

| | June 1, 2016 Liability | Effects of Discount as of June 1, 2016 | Incurred Claims | | Paid Claims | | Effects of Discount as of May 31, 2017 | May 31, 2017 Liability |
|--------------------------------|------------------------------|---|-----------------|-----------------|-----------------|-------------------|---|------------------------------|
| | | | Current Year | Prior Years | Current Year | Prior Years | | |
| <i>(In Thousands)</i> | | | | | | | | |
| <i>Year ended May 31, 2017</i> | | | | | | | | |
| Workers' compensation | \$ 10,705 | \$ 1,142 | \$ 868 | \$ 2,331 | \$ (311) | \$ (4,052) | \$ (993) | \$ 9,690 |
| Motor vehicle/general tort | 29,435 | - | 48 | 5,581 | (31) | (469) | - | 34,564 |
| | <u>\$ 40,140</u> | <u>\$ 1,142</u> | <u>\$ 916</u> | <u>\$ 7,912</u> | <u>\$ (342)</u> | <u>\$ (4,521)</u> | <u>\$ (993)</u> | <u>\$ 44,254</u> |

| | June 1, 2015 Liability | Effects of Discount as of June 1, 2015 | Incurred Claims | | Paid Claims | | Effects of Discount as of May 31, 2016 | May 31, 2016 Liability |
|--------------------------------|------------------------------|---|-----------------|-----------------|-----------------|-------------------|---|------------------------------|
| | | | Current Year | Prior Years | Current Year | Prior Years | | |
| <i>(In Thousands)</i> | | | | | | | | |
| <i>Year ended May 31, 2016</i> | | | | | | | | |
| Workers' compensation | \$ 8,889 | \$ 1,831 | \$ 2,181 | \$ 3,904 | \$ (719) | \$ (4,239) | \$ (1,142) | \$ 10,705 |
| Motor vehicle/general tort | 29,892 | - | 137 | (140) | (112) | (342) | - | 29,435 |
| | <u>\$ 38,781</u> | <u>\$ 1,831</u> | <u>\$ 2,318</u> | <u>\$ 3,764</u> | <u>\$ (831)</u> | <u>\$ (4,581)</u> | <u>\$ (1,142)</u> | <u>\$ 40,140</u> |

The foregoing reflects an adjustment for a deficiency of \$7.9 million and \$3.8 million for the fiscal years ended May 31, 2017 and 2016, respectively, for prior years' incurred claims that resulted from a change in estimate as more information became available.

NOTE 13 COMPENSATED ABSENCES

Sick leave is earned at a rate of 3.08 hours every two weeks, or 10 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 \$1.8 and \$1.7 million in November 2016 and 2015, respectively.

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

Upon termination of employment, all unused sick and vacation leave is paid to the employee. The compensated absences liabilities are \$15.9 million and \$16.0 million for fiscal years ended May 31, 2017 and 2016, respectively. The compensated absences liabilities recorded as accounts payable and accrued liabilities are \$8.7 million and \$8.8 million for the fiscal years ended May 31, 2017 and 2016, respectively. The compensated absences liabilities recorded as other noncurrent liabilities are \$7.2 million and \$7.2 million for the fiscal years ended May 31, 2017 and 2016, respectively.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Notes to the Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 13 COMPENSATED ABSENCES (continued)

A summary of changes to compensated absences for the years ended May 31, 2017 and 2016 is as follows:

| <u>Fiscal Year Ended May 31</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|-------------------------------------|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| | | | (In Thousands) | | |
| 2017 | \$ 15,970 | \$ 12,256 | \$ 12,365 | \$ 15,861 | \$ 8,723 |
| 2016 | 16,098 | 12,091 | 12,219 | 15,970 | 8,783 |

NOTE 14 LETTERS OF CREDIT

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

Pennsylvania insurance law requires a letter of credit, surety bond, or escrow from entities that self-insure their Workers' Compensation. As of May 31, 2017, the Commission has three (3) standby letters of credit to satisfy the PA Turnpike's collateral requirement under the expired Owner Controlled Insurance Program (OCIP) with Zurich American Insurance; there have been no draws against these letters of credit. The Letters of Credit are as follows:

- \$245,000 letter of credit with PNC Bank, N.A. for beneficiary Zurich American Insurance for the Uniontown to Brownsville Phase I OCIP.
- \$600,000 letter of credit with Wells Fargo Bank, N.A. for beneficiary Zurich American Insurance for the Uniontown to Brownsville Phase II OCIP.
- \$102,000 letter of credit with Wells Fargo Bank, N.A. for beneficiary Zurich American Insurance for the Susquehanna River Bridge and Valley Forge to Norristown Widening OCIPs.

In May 2017, in lieu of a letter of credit, the Commission placed \$2.0 million into an escrow account with Wells Fargo (naming Liberty Mutual as beneficiary) for the new OCIP on the U.S. 22 to I-79 portion of the Southern Beltway currently under construction.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Notes to the Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 15 SUBSEQUENT EVENTS

On March 21, 2017, the Commission authorized the issuance of the Pennsylvania Turnpike Commission's variable or fixed rate revenue bonds in an aggregate initial principal amount not to exceed \$500 million (based on par amount), for the purpose of financing the costs of various capital expenditures for the Pennsylvania Turnpike Commission's current 10-year capital plan. The Commission expects to close on the bonds in October 2017.

On July 27, 2017, the Commission issued \$750,510,000 2017 Series B Subordinate Revenue Bonds consisting of \$379,115,000 2017 Series B Sub-Series B-1 Subordinate Revenue Bonds, \$371,395,000 2017 Series B Sub-Series B-2 Subordinate Revenue Bonds and \$45,390,000 2017 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds. The 2017 Series B Sub-Series B-1 Subordinate Revenue Bonds were issued to finance a portion of the costs of making payments to PennDOT in accordance with Act 44 and Act 89, to fund necessary reserves to the extent required for the 2017 Series B Sub-Series B-1 Subordinate Revenue Bonds and to pay the costs of issuing the 2017 Series B Sub-Series B-1 Subordinate Revenue Bonds. The 2017 Series B Sub-Series B-2 Subordinate Revenue Bonds were issued to provide funds to finance the costs of advance refunding various Commission outstanding bonds and to pay the cost of issuing the 2017 Series B Sub-Series B-2 Subordinate Revenue Bonds. The 2017 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds were issued to provide funds to finance the costs of advance refunding various Commission outstanding bonds and to pay the cost of issuing the 2017 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds.

On August 15, 2017, the Commission authorized the issuance of the Pennsylvania Turnpike Commission's variable rate revenue bonds or notes, in one or more series or sub-series, taxable or tax exempt, in an aggregate initial principal amount not to exceed \$250 million (based on par amount), for the purpose of financing the current refunding of all or a portion of certain outstanding variable rate revenue bonds previously issued by the Commission.

On August 24, 2017, the Commission received its first bond rating from Kroll Bond Rating Agency (KBRA). KBRA assigned a long-term credit rating of AA- and a Stable outlook to the Commission's upcoming 2017 Series A-1 Senior Revenue Bonds and 2017 Series A-2 Senior Revenue Refunding Bonds, which are expected to be issued during the third quarter of calendar year 2017. KBRA also assigned a long-term credit rating of AA- and a Stable outlook to all Commission outstanding Senior Revenue Bonds on a parity basis.

REQUIRED SUPPLEMENTARY INFORMATION

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
 Schedule of Commission's Proportionate Share of the Net Pension Liability
 Pennsylvania State Employees' Retirement System

Last 10 Fiscal Years*
 (Dollar Amounts in Thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|-------------|
| Commission's proportion of the net pension liability | 1.96867410% | 1.90799267% | 1.99409814% |
| Commission's proportionate share of the net pension liability | \$ 379,173 | \$ 346,946 | \$ 296,271 |
| Commission's covered payroll | 123,365 | 121,085 | 121,579 |
| Commission's proportionate share of the net pension liability as a percentage of its covered payroll | 307.36% | 286.53% | 243.69% |
| Plan fiduciary net position as a percentage of the total pension liability | 57.8% | 58.9% | 64.8% |

* The amounts presented for each fiscal year were determined as of the measurement date (12/31) that occurred within the Commission's fiscal year. The Commission adopted GASB 68 on a prospective basis in fiscal year 2015; therefore, only the available years are presented in the above schedule.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Schedule of Commission's Contributions
Pennsylvania State Employees' Retirement System

Last 10 Fiscal Years*
(Dollar Amounts in Thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-----------------|-----------------|-----------------|
| Contractually required contribution | \$ 33,303 | \$ 27,864 | \$ 22,588 |
| Contributions in relation to the contractually required contribution | <u>(33,303)</u> | <u>(27,864)</u> | <u>(22,588)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Commission's covered payroll | \$ 121,778 | \$ 121,060 | \$ 121,009 |
| Contributions as a percentage of covered payroll | 27.35% | 23.02% | 18.67% |

* The Commission adopted GASB 68 on a prospective basis in fiscal year 2015; therefore, only the available years are presented in the above schedule.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Schedule of Funding Progress – Post employment Healthcare Benefits

(In Thousands)

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (Funding Excess) | Funded Ratio | Covered Payroll | Unfunded AAL (Funding Excess) as a Percentage of Covered Payroll |
|--------------------------|---------------------------|-----------------------------------|-------------------------------|--------------|-----------------|--|
| January 1, 2016 | \$ 331,568 | \$ 330,395 | \$ (1,173) | 100.4% | \$ 124,458 | -0.9% |
| January 1, 2014 | 271,265 | 283,133 | 11,868 | 95.8% | 126,699 | 9.4% |
| March 1, 2012 | 152,341 | 250,750 | 98,409 | 60.8% | 124,241 | 79.2% |

The following is a listing of changes in assumptions used in the January 1, 2016 valuation compared with previous valuations. See Note 11 for additional information.

- The eligibility conditions for Local 250 and 77 union employees hired on or after February 1, 2016 and management and supervisory union employees hired on or after March 1, 2016 was modified to the earlier of completion of 30 years of Credited Service or the later of attainment of age 60 and completion of 25 years of Credited Service. The last 10 years of Credited Service must be with the Commission.
- Local 30 Professionals who retire on or after January 1, 2014 and all other union, management and supervisory union employees who retire on or after February 1, 2016, must participate in the wellness program if less than age 65, including spouses under age 65 and other dependents age 19 to 26 or contribute 5% of the monthly premium based on the selected coverage level.
- Per capita claims costs were updated based on recent experience of Commission retirees and the healthcare trend rate was updated to use the Society of Actuaries-Getzen Model version 2014.
- The discount rate was reduced from 7% to 6.5% per annum.

Following is a listing of changes in assumptions used in the January 1, 2014 valuation compared with previous valuations

- Per capita claims costs were updated based on recent experience of Commission retirees and the healthcare trend was updated.
- Assumed health plan elections for members attaining age 65 were modified from 2/3rd electing Signature 65 and 1/3rd electing Freedom Blue (without Rx) to 60% electing Signature 65 and 40% electing Freedom Blue (without Rx).
- The assumed percentage of eligible female members covering a spouse decreased from 50% to 40%.

OTHER SUPPLEMENTARY INFORMATION

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania
Section Information

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

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

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

The Motor License section consists of an annual income of \$28.0 million, which has been provided to the Commission pursuant to Section 20 of Act 3 of the Commonwealth of Pennsylvania. This income is pledged against the Motor License Registration Fee Debt as listed in Note 7.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Section Information *(continued)*

Schedule of Net Position

| | May 31, 2017 | | | |
|---|-----------------------|-------------------|-------------------|---------------------|
| | Mainline | Oil Franchise | Motor License | Total |
| | <i>(In Thousands)</i> | | | |
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | |
| <i>Current assets:</i> | | | | |
| Cash and cash equivalents | \$ 215,949 | \$ - | \$ - | \$ 215,949 |
| Short-term investments | 67,764 | - | - | 67,764 |
| Accounts receivable | 69,181 | - | - | 69,181 |
| Accrued interest receivable | 1,268 | - | - | 1,268 |
| Inventories | 18,973 | - | - | 18,973 |
| <i>Restricted current assets</i> | | | | |
| Cash and cash equivalents | 599,188 | 87,253 | 15,400 | 701,841 |
| Short-term investments | 260,856 | 40,567 | 1,998 | 303,421 |
| Accounts receivable | 5,057 | 11,629 | - | 16,686 |
| Accrued interest receivable | 2,329 | 1,001 | 183 | 3,513 |
| Total current assets | <u>1,240,565</u> | <u>140,450</u> | <u>17,581</u> | <u>1,398,596</u> |
| <i>Noncurrent assets</i> | | | | |
| <i>Long-term investments</i> | | | | |
| Long-term investments unrestricted | 278,202 | - | - | 278,202 |
| Long-term investments restricted | 348,086 | 173,988 | 43,340 | 565,414 |
| Total long-term investments | <u>626,288</u> | <u>173,988</u> | <u>43,340</u> | <u>843,616</u> |
| <i>Capital assets not being depreciated</i> | | | | |
| Land and intangibles | 359,210 | - | - | 359,210 |
| Assets under construction | 1,356,951 | - | - | 1,356,951 |
| <i>Capital assets being depreciated</i> | | | | |
| Buildings | 978,186 | - | - | 978,186 |
| Improvements other than buildings | 121,137 | - | - | 121,137 |
| Equipment | 638,300 | - | - | 638,300 |
| Infrastructure | 8,380,745 | - | - | 8,380,745 |
| Total capital assets before accumulated depreciation | 11,834,529 | - | - | 11,834,529 |
| Less: Accumulated depreciation | 6,105,647 | - | - | 6,105,647 |
| Total capital assets after accumulated depreciation | <u>5,728,882</u> | <u>-</u> | <u>-</u> | <u>5,728,882</u> |
| <i>Other assets</i> | | | | |
| Prepaid bond insurance costs | 3,877 | 34 | 1,466 | 5,377 |
| OPEB Asset | 122,542 | - | - | 122,542 |
| Other assets | 31,747 | - | - | 31,747 |
| Total other assets | <u>158,166</u> | <u>34</u> | <u>1,466</u> | <u>159,666</u> |
| Total noncurrent assets | <u>6,513,336</u> | <u>174,022</u> | <u>44,806</u> | <u>6,732,164</u> |
| Total assets | <u>7,753,901</u> | <u>314,472</u> | <u>62,387</u> | <u>8,130,760</u> |
| Deferred outflows of resources from hedging derivatives | 44,921 | - | 61,904 | 106,825 |
| Deferred outflows of resources from refunding bonds | 310,684 | 13,481 | 19,155 | 343,320 |
| Deferred outflows of resources from pensions | 84,359 | - | - | 84,359 |
| Total deferred outflows of resources | <u>439,964</u> | <u>13,481</u> | <u>81,059</u> | <u>534,504</u> |
| Total assets and deferred outflows of resources | <u>\$ 8,193,865</u> | <u>\$ 327,953</u> | <u>\$ 143,446</u> | <u>\$ 8,665,264</u> |

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Section Information *(continued)*

Schedule of Net Position *(continued)*

| | May 31, 2017 | | | |
|--|-----------------------|--------------------------|--------------------------|-----------------------|
| | Mainline | Oil Franchise | Motor License | Total |
| | <i>(In Thousands)</i> | | | |
| LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | | | | |
| <i>Current liabilities</i> | | | | |
| Accounts payable and accrued liabilities | \$ 418,830 | \$ 26,779 | \$ 3,692 | \$ 449,301 |
| Current portion of debt | 365,745 | 17,445 | 8,185 | 391,375 |
| Unearned income | 71,942 | 732 | - | 72,674 |
| Total current liabilities | 856,517 | 44,956 | 11,877 | 913,350 |
| <i>Noncurrent liabilities</i> | | | | |
| Debt, less current portion, net of unamortized premium | 11,070,932 | 702,800 | 403,895 | 12,177,627 |
| Net pension liability | 379,173 | - | - | 379,173 |
| Other noncurrent liabilities | 177,418 | 335 | 69,143 | 246,896 |
| Total noncurrent liabilities | 11,627,523 | 703,135 | 473,038 | 12,803,696 |
| Total liabilities | 12,484,040 | 748,091 | 484,915 | 13,717,046 |
| Deferred inflows of resources from hedging derivatives | 2,700 | - | - | 2,700 |
| Deferred inflows of resources from service concession arrangements | 122,694 | - | - | 122,694 |
| Deferred inflows of resources from refunding bonds | - | 3,207 | - | 3,207 |
| Deferred inflows of resources from pensions | 18,289 | - | - | 18,289 |
| Total deferred inflows of resources | 143,683 | 3,207 | - | 146,890 |
| Total liabilities and deferred inflows of resources | 12,627,723 | 751,298 | 484,915 | 13,863,936 |
| NET POSITION | | | | |
| Net investment in capital assets | 849,221 | (708,561) | (398,698) | (258,038) |
| Restricted for construction purposes | - | 272,819 | 57,229 | 330,048 |
| Restricted for debt service | 32,330 | 12,397 | - | 44,727 |
| Unrestricted | (5,315,409) | - | - | (5,315,409) |
| Total net position | \$ (4,433,858) | \$ (423,345) | \$ (341,469) | \$ (5,198,672) |

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Section Information *(continued)*

Schedule of Revenues, Expenses, and Changes in Net Position

| | May 31, 2017 | | | |
|---|-----------------------|--------------------------|--------------------------|-----------------------|
| | Mainline | Oil Franchise | Motor License | Total |
| | <i>(In Thousands)</i> | | | |
| <i>Operating revenues</i> | | | | |
| Net fares | \$ 1,111,061 | \$ - | \$ - | \$ 1,111,061 |
| Other | 23,335 | - | - | 23,335 |
| Total operating revenues | <u>1,134,396</u> | <u>-</u> | <u>-</u> | <u>1,134,396</u> |
| <i>Operating expenses</i> | | | | |
| Cost of services | 514,310 | 2,793 | - | 517,103 |
| Depreciation | 354,343 | - | - | 354,343 |
| Total operating expenses | <u>868,653</u> | <u>2,793</u> | <u>-</u> | <u>871,446</u> |
| Operating income (loss) | 265,743 | (2,793) | - | 262,950 |
| <i>Nonoperating revenues (expenses)</i> | | | | |
| Investment earnings (loss) | 13,971 | (313) | 567 | 14,225 |
| Other nonoperating revenues | 16,978 | 4,554 | - | 21,532 |
| Act 44 and Act 89 payments to PennDOT | (450,000) | - | - | (450,000) |
| Capital assets transferred to PennDOT | (54,724) | - | - | (54,724) |
| Interest and bond expense | <u>(524,730)</u> | <u>(17,732)</u> | <u>(18,198)</u> | <u>(560,660)</u> |
| Nonoperating expenses, net | <u>(998,505)</u> | <u>(13,491)</u> | <u>(17,631)</u> | <u>(1,029,627)</u> |
| Loss before capital contributions | (732,762) | (16,284) | (17,631) | (766,677) |
| Capital contributions | <u>62,967</u> | <u>123,697</u> | <u>28,000</u> | <u>214,664</u> |
| (Decrease) increase in net position | (669,795) | 107,413 | 10,369 | (552,013) |
| Net position at beginning of year | (3,868,714) | (427,785) | (350,160) | (4,646,659) |
| Intersection transfers | <u>104,651</u> | <u>(102,973)</u> | <u>(1,678)</u> | <u>-</u> |
| Net position at end of year | <u>\$ (4,433,858)</u> | <u>\$ (423,345)</u> | <u>\$ (341,469)</u> | <u>\$ (5,198,672)</u> |

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Section Information *(continued)*

Schedule of Cash Flows

| | May 31, 2017 | | | |
|---|-----------------------|------------------|------------------|--------------------|
| | Mainline | Oil Franchise | Motor License | Total |
| | <i>(In Thousands)</i> | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash received from customer tolls and deposits | \$ 1,117,714 | \$ - | \$ - | \$ 1,117,714 |
| Cash payments for goods and services | (327,191) | (1,331) | - | (328,522) |
| Cash payments to employees | (156,679) | (1,455) | - | (158,134) |
| Cash received from other operating activities | 8,926 | - | - | 8,926 |
| Net cash provided by (used in) operating activities | <u>642,770</u> | <u>(2,786)</u> | <u>-</u> | <u>639,984</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Proceeds from sales and maturities of investments | 4,585,619 | 218,855 | 36,593 | 4,841,067 |
| Interest received on investments | 17,425 | 4,320 | 510 | 22,255 |
| Purchases of investments | <u>(4,661,446)</u> | <u>(209,521)</u> | <u>(39,924)</u> | <u>(4,910,891)</u> |
| Net cash provided by (used in) investing activities | <u>(58,402)</u> | <u>13,654</u> | <u>(2,821)</u> | <u>(47,569)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Capital grants received from other governments | 55,265 | - | - | 55,265 |
| Proceeds from Motor License Registration fees | - | - | 28,000 | 28,000 |
| Proceeds from Oil Company Franchise Tax | - | 120,754 | - | 120,754 |
| Construction and acquisition of capital assets | (522,966) | (76,117) | - | (599,083) |
| Proceeds from sale of capital assets | 993 | - | - | 993 |
| Payments for bond and swap expenses | (2,690) | (1,643) | (4) | (4,337) |
| Payments for debt refundings | (140,060) | (385,359) | - | (525,419) |
| Payments for debt maturities | (41,540) | (18,885) | (7,775) | (68,200) |
| Interest paid on debt | (213,989) | (36,000) | (20,081) | (270,070) |
| Interest subsidy from Build America Bonds | 16,289 | 4,554 | - | 20,843 |
| Proceeds from debt issuances | <u>670,726</u> | <u>384,992</u> | <u>-</u> | <u>1,055,718</u> |
| Net cash (used in) provided by capital and related financing activities | <u>(177,972)</u> | <u>(7,704)</u> | <u>140</u> | <u>(185,536)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Cash payments to PennDOT | (450,000) | - | - | (450,000) |
| Payments for bond and swap expenses | (8,128) | - | - | (8,128) |
| Payments for debt refundings | (1,549,690) | - | - | (1,549,690) |
| Payments for debt maturities | (54,430) | - | - | (54,430) |
| Interest paid on debt | (224,231) | - | - | (224,231) |
| Proceeds from debt issuances | <u>1,823,095</u> | <u>-</u> | <u>-</u> | <u>1,823,095</u> |
| Net cash used in noncapital financing activities | <u>(463,384)</u> | <u>-</u> | <u>-</u> | <u>(463,384)</u> |
| Increase in cash and cash equivalents | (56,988) | 3,164 | (2,681) | (56,505) |
| Cash and cash equivalents at beginning of year | <u>872,125</u> | <u>84,089</u> | <u>18,081</u> | <u>974,295</u> |
| Cash and cash equivalents at end of year | <u>\$ 815,137</u> | <u>\$ 87,253</u> | <u>\$ 15,400</u> | <u>\$ 917,790</u> |

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Section Information *(continued)*

Schedule of Cash Flows *(continued)*

| | May 31, 2017 | | | Total |
|--|-------------------|-------------------|------------------|-------------------|
| | Mainline | Oil Franchise | Motor License | |
| <i>(In Thousands)</i> | | | | |
| <i>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</i> | | | | |
| Operating income (loss) | \$ 265,743 | \$ (2,793) | \$ - | \$ 262,950 |
| <i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i> | | | | |
| Depreciation | 354,343 | - | - | 354,343 |
| <i>Change in operating assets and liabilities</i> | | | | |
| Accounts receivable | (11,924) | - | - | (11,924) |
| Inventories | 1,520 | - | - | 1,520 |
| Other assets | (8,606) | - | - | (8,606) |
| Deferred outflows of resources from pensions | (18,078) | - | - | (18,078) |
| Accounts payable and accrued liabilities | 17,035 | 7 | - | 17,042 |
| Net pension liability | 32,227 | - | - | 32,227 |
| Other noncurrent liabilities | 4,414 | - | - | 4,414 |
| Deferred inflows of resources from pensions | 6,096 | - | - | 6,096 |
| Net cash provided by (used in) operating activities | \$ 642,770 | \$ (2,786) | \$ - | \$ 639,984 |
| <i>Reconciliation of cash and cash equivalents to the statements of net position</i> | | | | |
| Cash and cash equivalents | \$ 215,949 | \$ - | \$ - | \$ 215,949 |
| Restricted cash and cash equivalents | 599,188 | 87,253 | 15,400 | 701,841 |
| Total cash and cash equivalents | \$ 815,137 | \$ 87,253 | \$ 15,400 | \$ 917,790 |

Noncash activities

The Commission recorded a net increase of \$9.5 million in the fair value of its investments for the year ended May 31, 2017. Increases (Decreases) by section were: Mainline, \$3.9 million; and Oil Franchise, \$5.6 million.

The Commission recorded \$34.8 million for the amortization of bond premium for the year ended May 31, 2017. Amortization by section was: Mainline, \$29.8 million; Oil Franchise, \$4.3 million and Motor License, \$0.7 million.

As indicated in Note 7 (Debt), the Commission refunded various bonds in fiscal year 2017. The fiscal year 2017 refundings resulted in an \$8.1 million reclassification from bond premiums (discounts) to deferred outflows of resources from refunding bonds and a \$3.1 million reclassification from bond premiums (discounts) to deferred inflows of resources from refundings. Reclassification by section was: Mainline, \$2.2 million; and Oil Franchise, \$5.9 million. Additionally, the Commission recorded \$36.4 million for the amortization of deferred outflows/inflows of resources from refunding bonds for the year ended May 31, 2017. Amortization by section was: Mainline, \$35.0 million; Oil Franchise, \$0.6 million and Motor License, \$0.8 million.

The Commission recorded \$4.6 million for the amortization of prepaid bond insurance costs for the year ended May 31, 2017. Amortization by section was: Mainline, \$3.3 million; Oil Franchise, \$1.2 million and Motor License, \$0.1 million.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Section Information *(continued)*

Schedule of Cash Flows *(continued)*

Noncash activities *(continued)*

The Commission recorded an interest expense reduction of \$2.9 million in the Mainline section and \$0.2 million in the Motor License section for the year ended May 31, 2017 related to GASB 53 entries.

The Commission recognized total capital contributions of \$214.7 million for fiscal year ended May 31, 2017. Cash received of \$204.0 million for fiscal year ended May 31, 2017 is reported in the Capital and related financing activities of this schedule. The \$10.7 million difference between capital contributions and cash received is the result of a \$5.5 million (Mainline section \$2.5 million; Oil Franchise section \$3.0 million) increase in receivables related to these capital contributions and a \$5.2 million Mainline noncash capital contribution related to capital assets provided by service plaza operators. The Commission entered into agreements with a food and fuel provider to totally reconstruct the service plazas; the service plaza operators provide the capital for the reconstruction in exchange for lower rental rates. See Note 2 for further discussion on capital contributions and Note 6 for further discussion on the service plazas.

The Commission and PennDOT entered into an agreement regarding ownership of overhead bridges that carry state roads. Per the agreement, once the Commission replaces these overhead bridges, and after final inspections and supplemental agreements are signed by both parties, ownership and maintenance responsibilities of the bridges are transferred from the Commission to PennDOT. The Commission transferred assets with a net book value of \$54.7 million from its Mainline section to PennDOT during the fiscal year ended May 31, 2017.

The Commission records intersection activity related to revenue, expense, asset and liability transfers between its sections. Some of the intersection entries are related to cash transfers; others are noncash transfers as required. Net intersection transfers for the year ended May 31, 2017 were: to Mainline, \$104.7 million; from Oil Franchise, \$103.0 million; and from Motor License, \$1.7 million.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Section Information *(continued)*

Schedule of Net Position

| | May 31, 2016 | | | |
|---|-----------------------|-------------------|-------------------|---------------------|
| | Mainline | Oil Franchise | Motor License | Total |
| | <i>(In Thousands)</i> | | | |
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | |
| <i>Current assets</i> | | | | |
| Cash and cash equivalents | \$ 169,248 | \$ - | \$ - | \$ 169,248 |
| Short-term investments | 40,798 | - | - | 40,798 |
| Accounts receivable | 57,257 | - | - | 57,257 |
| Accrued interest receivable | 1,457 | - | - | 1,457 |
| Inventories | 20,492 | - | - | 20,492 |
| <i>Restricted current assets</i> | | | | |
| Cash and cash equivalents | 702,877 | 84,089 | 18,081 | 805,047 |
| Short-term investments | 151,900 | 11,981 | 1,300 | 165,181 |
| Accounts receivable | 2,585 | 8,686 | - | 11,271 |
| Accrued interest receivable | 1,877 | 997 | 129 | 3,003 |
| Total current assets | <u>1,148,491</u> | <u>105,753</u> | <u>19,510</u> | <u>1,273,754</u> |
| <i>Noncurrent assets</i> | | | | |
| <i>Long-term investments</i> | | | | |
| Long-term investments unrestricted | 279,926 | - | - | 279,926 |
| Long-term investments restricted | 399,894 | 215,246 | 40,704 | 655,844 |
| Total long-term investments | <u>679,820</u> | <u>215,246</u> | <u>40,704</u> | <u>935,770</u> |
| <i>Capital assets not being depreciated</i> | | | | |
| Land and intangibles | 333,934 | - | - | 333,934 |
| Assets under construction | 1,330,627 | - | - | 1,330,627 |
| <i>Capital assets being depreciated</i> | | | | |
| Buildings | 968,902 | - | - | 968,902 |
| Improvements other than buildings | 119,256 | - | - | 119,256 |
| Equipment | 619,779 | - | - | 619,779 |
| Infrastructure | 7,908,360 | - | - | 7,908,360 |
| Total capital assets before accumulated depreciation | 11,280,858 | - | - | 11,280,858 |
| Less: Accumulated depreciation | 5,763,532 | - | - | 5,763,532 |
| Total capital assets after accumulated depreciation | <u>5,517,326</u> | <u>-</u> | <u>-</u> | <u>5,517,326</u> |
| <i>Other assets</i> | | | | |
| Prepaid bond insurance costs | 6,997 | 1,264 | 1,527 | 9,788 |
| OPEB assets | 113,930 | - | - | 113,930 |
| Other assets | 32,190 | - | - | 32,190 |
| Total other assets | <u>153,117</u> | <u>1,264</u> | <u>1,527</u> | <u>155,908</u> |
| Total noncurrent assets | <u>6,350,263</u> | <u>216,510</u> | <u>42,231</u> | <u>6,609,004</u> |
| Total assets | <u>7,498,754</u> | <u>322,263</u> | <u>61,741</u> | <u>7,882,758</u> |
| Deferred outflows of resources from hedging derivatives | 58,545 | - | 75,246 | 133,791 |
| Deferred outflows of resources from refunding bonds | 170,705 | 5,626 | 19,947 | 196,278 |
| Deferred outflows of resources from pensions | 66,281 | - | - | 66,281 |
| Total deferred outflows of resources | <u>295,531</u> | <u>5,626</u> | <u>95,193</u> | <u>396,350</u> |
| Total assets and deferred outflows of resources | <u>\$ 7,794,285</u> | <u>\$ 327,889</u> | <u>\$ 156,934</u> | <u>\$ 8,279,108</u> |

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Section Information *(continued)*

Schedule of Net Position *(continued)*

| | May 31, 2016 | | | |
|---|-----------------------|---------------------|---------------------|-----------------------|
| | Mainline | Oil Franchise | Motor License | Total |
| | <i>(In Thousands)</i> | | | |
| LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | | | | |
| <i>Current liabilities</i> | | | | |
| Accounts payable and accrued liabilities | \$ 387,033 | \$ 18,650 | \$ 3,846 | \$ 409,529 |
| Current portion of debt | 236,030 | 18,885 | 7,775 | 262,690 |
| Unearned income | 67,112 | 732 | - | 67,844 |
| Total current liabilities | <u>690,175</u> | <u>38,267</u> | <u>11,621</u> | <u>740,063</u> |
| <i>Noncurrent liabilities</i> | | | | |
| Debt, less current portion, net of unamortized premium | 10,303,989 | 715,071 | 412,799 | 11,431,859 |
| Net pension liability | 346,946 | - | - | 346,946 |
| Other noncurrent liabilities | 185,668 | 1,067 | 82,674 | 269,409 |
| Total noncurrent liabilities | <u>10,836,603</u> | <u>716,138</u> | <u>495,473</u> | <u>12,048,214</u> |
| Total liabilities | <u>11,526,778</u> | <u>754,405</u> | <u>507,094</u> | <u>12,788,277</u> |
| <i>Deferred inflows of resources from service concession arrangements</i> | | | | |
| | 124,028 | - | - | 124,028 |
| <i>Deferred inflows of resources from refunding bonds</i> | | | | |
| | - | 1,269 | - | 1,269 |
| <i>Deferred inflows of resources from pensions</i> | | | | |
| | 12,193 | - | - | 12,193 |
| Total deferred inflows of resources | <u>136,221</u> | <u>1,269</u> | <u>-</u> | <u>137,490</u> |
| Total liabilities and deferred inflows of resources | <u>11,662,999</u> | <u>755,674</u> | <u>507,094</u> | <u>12,925,767</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 1,098,109 | (716,101) | (406,528) | (24,520) |
| Restricted for construction purposes | - | 276,552 | 56,368 | 332,920 |
| Restricted for debt service | 17,114 | 11,764 | - | 28,878 |
| Unrestricted | <u>(4,983,937)</u> | <u>-</u> | <u>-</u> | <u>(4,983,937)</u> |
| Total net position | <u>\$ (3,868,714)</u> | <u>\$ (427,785)</u> | <u>\$ (350,160)</u> | <u>\$ (4,646,659)</u> |

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Section Information *(continued)*

Schedule of Revenues, Expenses, and Changes in Net Position

| | May 31, 2016 | | | |
|---|-----------------------|--------------------------|--------------------------|-----------------------|
| | Mainline | Oil Franchise | Motor License | Total |
| | <i>(In Thousands)</i> | | | |
| <i>Operating revenues</i> | | | | |
| Net fares | \$ 1,030,115 | \$ - | \$ - | \$ 1,030,115 |
| Other | 22,576 | - | - | 22,576 |
| Total operating revenues | <u>1,052,691</u> | <u>-</u> | <u>-</u> | <u>1,052,691</u> |
| <i>Operating expenses</i> | | | | |
| Cost of services | 469,996 | 1,136 | - | 471,132 |
| Depreciation | <u>332,941</u> | <u>-</u> | <u>-</u> | <u>332,941</u> |
| Total operating expenses | <u>802,937</u> | <u>1,136</u> | <u>-</u> | <u>804,073</u> |
| Operating income (loss) | <u>249,754</u> | <u>(1,136)</u> | <u>-</u> | <u>248,618</u> |
| <i>Nonoperating revenues (expenses)</i> | | | | |
| Investment earnings | 18,899 | 9,749 | 421 | 29,069 |
| Other nonoperating revenues | 17,092 | 4,559 | - | 21,651 |
| Act 44 and Act 89 payments to PennDOT | (450,000) | - | - | (450,000) |
| Capital assets transferred to PennDOT | (40,937) | - | - | (40,937) |
| Interest and bond expense | <u>(466,463)</u> | <u>(35,570)</u> | <u>(18,988)</u> | <u>(521,021)</u> |
| Nonoperating expenses, net | <u>(921,409)</u> | <u>(21,262)</u> | <u>(18,567)</u> | <u>(961,238)</u> |
| Loss before capital contributions | (671,655) | (22,398) | (18,567) | (712,620) |
| Capital contributions | <u>33,103</u> | <u>119,803</u> | <u>28,000</u> | <u>180,906</u> |
| (Decrease) increase in net position | (638,552) | 97,405 | 9,433 | (531,714) |
| Net position at beginning of year | (3,267,060) | (483,837) | (364,048) | (4,114,945) |
| Intersection transfers | <u>36,898</u> | <u>(41,353)</u> | <u>4,455</u> | <u>-</u> |
| Net position at end of year | <u>\$ (3,868,714)</u> | <u>\$ (427,785)</u> | <u>\$ (350,160)</u> | <u>\$ (4,646,659)</u> |

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Section Information *(continued)*

Schedule of Cash Flows

| | May 31, 2016 | | | |
|---|-----------------------|------------------|------------------|--------------------|
| | Mainline | Oil Franchise | Motor License | Total |
| | <i>(In Thousands)</i> | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash received from customer tolls and deposits | \$ 1,036,742 | \$ - | \$ - | \$ 1,036,742 |
| Cash payments for goods and services | (301,744) | (228) | - | (301,972) |
| Cash payments to employees | (161,016) | (953) | - | (161,969) |
| Cash received from other operating activities | 12,312 | - | - | 12,312 |
| Net cash provided by (used in) operating activities | <u>586,294</u> | <u>(1,181)</u> | <u>-</u> | <u>585,113</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Proceeds from sales and maturities of investments | 2,842,981 | 321,961 | 45,890 | 3,210,832 |
| Interest received on investments | 18,420 | 3,778 | 438 | 22,636 |
| Purchases of investments | <u>(2,870,198)</u> | <u>(334,281)</u> | <u>(44,981)</u> | <u>(3,249,460)</u> |
| Net cash provided by (used in) investing activities | <u>(8,797)</u> | <u>(8,542)</u> | <u>1,347</u> | <u>(15,992)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Capital grants received from other governments | 33,497 | - | - | 33,497 |
| Proceeds from Motor License Registration fees | - | - | 28,000 | 28,000 |
| Proceeds from Oil Company Franchise Tax | - | 121,130 | - | 121,130 |
| Cash transfer for Continuing Covenant Agreement | - | (2,137) | 2,137 | - |
| Cash transfer for closing fees for interest rate conversion | - | (332) | 332 | - |
| Cash transfers for debt service payments | - | (4,000) | 4,000 | - |
| Construction and acquisition of capital assets | (653,655) | (33,677) | - | (687,332) |
| Proceeds from sale of capital assets | 1,148 | - | - | 1,148 |
| Payments for bond and swap expenses | (4,321) | (44) | (823) | (5,188) |
| Payments for debt refundings | (233,170) | - | - | (233,170) |
| Payments for debt maturities | (55,830) | (17,625) | (7,410) | (80,865) |
| Interest paid on debt | (177,069) | (36,953) | (20,335) | (234,357) |
| Interest subsidy from Build America Bonds | 16,305 | 4,559 | - | 20,864 |
| Swap suspension payments received | 4,800 | - | - | 4,800 |
| Proceeds from debt issuances | 1,004,735 | - | - | 1,004,735 |
| Draw on Stand by Purchase Agreement | - | - | 231,430 | 231,430 |
| Paid Stand by Purchase Agreement | <u>-</u> | <u>-</u> | <u>(231,430)</u> | <u>(231,430)</u> |
| Net cash (used in) provided by capital and related financing activities | <u>(63,560)</u> | <u>30,921</u> | <u>5,901</u> | <u>(26,738)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Cash payments to PennDOT | (450,000) | - | - | (450,000) |
| Payments for bond and swap expenses | (5,046) | - | - | (5,046) |
| Payments for debt refundings | (579,695) | - | - | (579,695) |
| Payments for debt maturities | (57,765) | - | - | (57,765) |
| Interest paid on debt | (201,716) | - | - | (201,716) |
| Proceeds from debt issuances | <u>942,360</u> | <u>-</u> | <u>-</u> | <u>942,360</u> |
| Net cash used in noncapital financing activities | <u>(351,862)</u> | <u>-</u> | <u>-</u> | <u>(351,862)</u> |
| Increase in cash and cash equivalents | 162,075 | 21,198 | 7,248 | 190,521 |
| Cash and cash equivalents at beginning of year | <u>710,050</u> | <u>62,891</u> | <u>10,833</u> | <u>783,774</u> |
| Cash and cash equivalents at end of year | <u>\$ 872,125</u> | <u>\$ 84,089</u> | <u>\$ 18,081</u> | <u>\$ 974,295</u> |

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Section Information *(continued)*

Schedule of Cash Flows *(continued)*

| | May 31, 2016 | | | Total |
|--|-----------------------|-------------------|------------------|-------------------|
| | Mainline | Oil Franchise | Motor License | |
| | <i>(In Thousands)</i> | | | |
| <i>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</i> | | | | |
| Operating income (loss) | \$ 249,754 | \$ (1,136) | \$ - | \$ 248,618 |
| <i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i> | | | | |
| Depreciation | 332,941 | - | - | 332,941 |
| <i>Change in operating assets and liabilities</i> | | | | |
| Accounts receivable | (10,505) | - | - | (10,505) |
| Inventories | (1,684) | - | - | (1,684) |
| Other assets | (9,008) | - | - | (9,008) |
| Deferred outflows of resources from pensions | (45,203) | - | - | (45,203) |
| Accounts payable and accrued liabilities | 9,527 | (45) | - | 9,482 |
| Net pension liability | 50,675 | - | - | 50,675 |
| Other noncurrent liabilities | 288 | - | - | 288 |
| Deferred inflows of resources from pensions | 9,509 | - | - | 9,509 |
| Net cash provided by (used in) operating activities | \$ 586,294 | \$ (1,181) | \$ - | \$ 585,113 |
| <i>Reconciliation of cash and cash equivalents to the statements of net position</i> | | | | |
| Cash and cash equivalents | \$ 169,248 | \$ - | \$ - | \$ 169,248 |
| Restricted cash and cash equivalents | 702,877 | 84,089 | 18,081 | 805,047 |
| Total cash and cash equivalents | \$ 872,125 | \$ 84,089 | \$ 18,081 | \$ 974,295 |

Noncash activities

The Commission recorded a net decrease of \$4.5 million in the fair value of its investments for the year ended May 31, 2016. Increases (Decreases) by section were: Mainline, \$(0.2) million; Oil Franchise, \$(4.4) million and Motor License, \$0.1 million.

The Commission recorded \$17.6 million for the amortization of bond premium for the year ended May 31, 2016. Amortization by section was: Mainline, \$15.4 million; Oil Franchise, \$1.5 million and Motor License, \$0.7 million.

As indicated in Note 7 (Debt), the Commission refunded various bonds in fiscal year 2016. The fiscal year 2016 refundings resulted in a \$1.1 million Mainline reclassification from bond premiums (discounts) to deferred outflows of resources from refunding bonds. Additionally, the Commission recorded \$19.9 million for the amortization of deferred outflows/inflows of resources from refunding bonds for the year ended May 31, 2016. Amortization by section was: Mainline, \$18.8 million; Oil Franchise, \$0.3 million and Motor License, \$0.8 million.

The Commission recorded \$3.9 million for the amortization of prepaid bond insurance costs for the year ended May 31, 2016. Amortization by section was: Mainline, \$3.7 million; Oil Franchise, \$0.1 million and Motor License, \$0.1 million.

The Commission recorded an interest expense reduction of \$2.2 million in the Mainline section and \$0.2 million in the Motor License section for the year ended May 31, 2016 related to GASB 53 entries.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Section Information *(continued)*

Schedule of Cash Flows *(continued)*

Noncash activities (continued)

The Commission recognized total capital contributions of \$180.9 million for fiscal year ended May 31, 2016. Cash received of \$182.6 million for fiscal year ended May 31, 2016 is reported in the Capital and related financing activities of this schedule. The \$1.7 million difference between capital contributions and cash received is the result of a \$6.9 million (Mainline section \$5.6 million; Oil Franchise section \$1.3 million) decrease in receivables related to these capital contributions offset by a \$5.2 million Mainline noncash capital contribution related to capital assets provided by service plaza operators. The Commission entered into agreements with a food and fuel provider to totally reconstruct the service plazas; the service plaza operators provide the capital for the reconstruction in exchange for lower rental rates. See Note 2 for further discussion on capital contributions and Note 6 for further discussion on the service plazas.

The Commission and PennDOT entered into an agreement regarding ownership of overhead bridges that carry state roads. Per the agreement, once the Commission replaces these overhead bridges, and after final inspections and supplemental agreements are signed by both parties, ownership and maintenance responsibilities of the bridges are transferred from the Commission to PennDOT. The Commission transferred assets with a net book value of \$40.9 million from its Mainline section to PennDOT during the fiscal year ended May 31, 2016.

The Commission records intersection activity related to revenue, expense, asset and liability transfers between its sections. Some of the intersection entries are related to cash transfers; others are noncash transfers as required. Net intersection transfers for the year ended May 31, 2016 were: to Mainline, \$36.9 million; from Oil Franchise, \$41.4 million; and to Motor License, \$4.5 million.

PENNSYLVANIA TURNPIKE COMMISSION

A Component Unit of the Commonwealth of Pennsylvania

Section Information *(continued)*

Schedules of Cost of Services Detail

The following tables provide additional detail for the costs of services reported in the statements of revenues, expenses, and changes in net position.

Fiscal Year Ended May 31, 2017

| | <u>Mainline Operating</u> | <u>Mainline Capital</u> | <u>Total Mainline</u> | <u>Oil Franchise</u> | <u>Motor License</u> | <u>Total</u> |
|--|-------------------------------|-----------------------------|---------------------------|--------------------------|--------------------------|-------------------|
| General and administrative | \$ 47,861 | \$ 100,813 | \$ 148,674 | \$ 1,827 | \$ - | \$ 150,501 |
| Traffic engineering and operations | 3,813 | 1,743 | 5,556 | - | - | 5,556 |
| Service centers | 32,304 | - | 32,304 | - | - | 32,304 |
| Employee benefits | 113,986 | 11,569 | 125,555 | 966 | - | 126,521 |
| Toll collection | 60,112 | 1,665 | 61,777 | - | - | 61,777 |
| Maintenance | 66,191 | 2,219 | 68,410 | - | - | 68,410 |
| Facilities and energy mgmt. operations | 11,266 | 13,545 | 24,811 | - | - | 24,811 |
| Turnpike patrol | 47,223 | - | 47,223 | - | - | 47,223 |
| Total cost of services | \$ 382,756 | \$ 131,554 | \$ 514,310 | \$ 2,793 | \$ - | \$ 517,103 |

Fiscal Year Ended May 31, 2016

| | <u>Mainline Operating</u> | <u>Mainline Capital</u> | <u>Total Mainline</u> | <u>Oil Franchise</u> | <u>Motor License</u> | <u>Total</u> |
|--|-------------------------------|-----------------------------|---------------------------|--------------------------|--------------------------|-------------------|
| General and administrative | \$ 40,725 | \$ 80,728 | \$ 121,453 | \$ 691 | \$ - | \$ 122,144 |
| Traffic engineering and operations | 4,654 | 1,483 | 6,137 | - | - | 6,137 |
| Service centers | 28,304 | - | 28,304 | - | - | 28,304 |
| Employee benefits | 107,646 | 9,927 | 117,573 | 445 | - | 118,018 |
| Toll collection | 59,387 | 4,888 | 64,275 | - | - | 64,275 |
| Maintenance | 64,545 | 1,319 | 65,864 | - | - | 65,864 |
| Facilities and energy mgmt. operations | 10,886 | 9,343 | 20,229 | - | - | 20,229 |
| Turnpike patrol | 46,161 | - | 46,161 | - | - | 46,161 |
| Total cost of services | \$ 362,308 | \$ 107,688 | \$ 469,996 | \$ 1,136 | \$ - | \$ 471,132 |

Note: Certain amounts in the above table were reclassified to conform to the current period financial statements presentation.



APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following sets forth the definitions of certain terms used in the Indenture and elsewhere in this Official Statement, and a summary of certain provisions of the Indenture. Reference should be made to the full text of the Indenture for a complete statement of all of these provisions and other provisions. Copies of the Indenture may be obtained as described in the forepart of this Official Statement. Capitalized terms used but not defined herein shall have the meanings set forth in the forepart of this Official Statement.

DEFINITIONS OF CERTAIN TERMS

“Additional Bonds” shall mean Bonds of any series including Additional Senior Bonds and Additional Subordinated Bonds authorized under the Indenture and duly executed, authenticated, issued and delivered pursuant to the provisions thereof, other than currently Outstanding Bonds. Such term shall include, without limitation, notes, commercial paper, mandatory tender bonds, bond and grant anticipation notes, variable rate bonds, capital appreciation bonds, obligations secured only as to regularly scheduled interest payments by the Tax Revenues and the Trust Estate and any other evidence of indebtedness which the Commission is legally authorized to issue under the Indenture.

“Additional Projects” shall mean the improvements, extensions and replacements to the Pennsylvania Turnpike System, other than the portions of the improvements, extensions and replacements which are financed or refinanced with the proceeds of Additional Bonds.

“Assumed Variable Rate” shall mean the maximum established rate for any Variable Rate Indebtedness then outstanding.

“Authenticating Agent” shall mean the Person or Persons designated and authorized to authenticate any series of Bonds or such Person designated by the Authenticating Agent to serve such function, and shall at this time be the Trustee with respect to the 2018 Bonds.

“Average Principal and Interest Requirements” shall mean, as to any Bonds under consideration, the sum of the Principal and Interest Requirements for the Fiscal Years contained in the period under consideration with respect to such Bonds divided by the number of fiscal years contained in such period. Any determination of the Average Principal and Interest Requirements with respect to a number of series of Bonds outstanding shall be made based on the combined Principal and Interest Requirements of all such Bonds at the time outstanding. The “period under consideration” shall mean the period beginning with the date of calculation and ending with the final maturity of Bonds under consideration.

“Balloon Indebtedness” shall mean a series of Bonds 25% or more of the principal of which matures on the same date and is not required by the documents governing such indebtedness to be amortized by payment or redemption prior to such date. If any Series of Bonds consists partially of Variable Rate Indebtedness and partially of Fixed Rate Indebtedness

the portion constituting Variable Rate Indebtedness and the portion constituting Fixed Rate Indebtedness shall be treated as separate series for purpose of determining whether any such indebtedness constitutes Balloon Indebtedness.

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

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

“Bond” shall mean any Additional Bond issued under the provisions of the Indenture.

“Bond Counsel” shall mean any attorney or firm of attorneys whose experience in matters relating to the issuance of tax-exempt obligations is nationally recognized.

“Bond Insurer” shall mean, as to any series of Bonds, the bond insurer undertaking to insure such Bonds.

“Bond Owner”, “holder”, “owner” or “registered owner” shall mean the Person in whose name a Bond is registered on the books maintained by the Bond Registrar except as otherwise provided in the Indenture.

“Bond Registrar” shall mean, with respect to the 2018 Bonds, that Person which maintains the bond register or such other entity designated by the Bond Registrar to serve such function, and shall initially be the Trustee with respect to the 2018 Bonds.

“Business Day” shall mean any day other than a Saturday or a Sunday or a day on which banking institutions are required or authorized by law or executive order to remain closed in the Commonwealth of Pennsylvania. With respect to the 2018 Bonds, Business Day means any day other than (i) a Saturday or Sunday, (ii) a day on which the Trustee, Paying Agent or banks and trust companies in New York, New York are authorized or required to remain closed, or (iii) a day on which the New York Stock Exchange is closed.

“Certificates of Deposit” shall mean negotiable or nonnegotiable certificates of deposit, time deposits or other similar banking arrangements issued by the Trustee or by any bank or trust company, including any depository hereunder, which has a combined capital and surplus of not less than \$200,000,000, to be fully secured by Government Obligations or direct and general obligations of the Commonwealth of Pennsylvania. Such security shall have an aggregate market value, exclusive of accrued interest, at all times at least equal to the amount of such Certificate of Deposit. Such security shall be deposited with a Federal Reserve Bank or with the trust department of the Trustee.

“Clearing Fund” shall mean the special fund of that name created by the Indenture.

“Code” shall mean the Internal Revenue Code of 1986, as the same may be amended.

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

“Consultant” shall mean a Person who shall be independent, appointed by the Commission as needed, qualified and having a nationwide and favorable reputation for skill and experience in such work for which the Consultant was appointed. In those situations in which a Consultant is appointed to survey risks and to recommend insurance coverage, such Consultant may not be a broker agent with whom the Commission transacts business.

“Cost” as applied to any Project financed under the provisions of the Indenture, shall include, without intending thereby to limit or restrict any proper definition of such word under the provisions of the act authorizing such Project, all obligations and expenses and all items of cost which are set forth in the Indenture.

“Credit Facility” shall mean any letter of credit, line of credit, standby letter of credit, indemnity or surety or municipal bond insurance policy or agreement to purchase a debt obligation or any similar extension of credit, credit enhancement or liquidity support obtained by the Commission from a financial or insurance institution, to provide for or to secure payment of principal and/or purchase price of and/or interest on Bonds pursuant to the provisions of a Supplemental Indenture under which such Bonds are issued.

“Defeasance Securities” shall mean:

1. Cash,
2. U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series “SLGs”),
3. Direct obligations of the U.S. Treasury which have been stripped by the U.S. Treasury and CATS, TIGRS and similar securities,
4. Resolution Funding Corp. strips which have been stripped by the Federal Reserve Bank of New York,
5. Pre-refunded obligations of a state or municipality rated in the highest rating category by the Rating Agency, and
6. Obligations issued by the following agencies which are backed by the full faith and credit of the
 - a. U.S. Export-Import Bank
 - b. Farmers Home Administration
Certificates of beneficial ownership
 - c. Federal Financing Bank
 - d. General Services Administration
Participation Certificates
 - e. U.S. Maritime Administration
Guaranteed Title XI financing

- f. U.S. Department of Housing and Urban Development
 - Project Notes
 - Local Authority Bonds
 - New Communities Debentures – U.S. government guaranteed debentures U.S. Housing Notes and Bonds – U.S. government guaranteed public housing notes
- g. U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds

“DTC” means The Depository Trust Company (a limited purpose trust company), New York, New York.

“Enabling Acts” shall have the meaning set forth in the Indenture.

“Event of Default” shall mean those events specified in the Indenture and summarized under "Events of Default" below.

“Extraordinary Event” shall mean the amendment or repeal of Section 54AA or 6431 of the Code as such sections were added by Section 1531 of the American Recovery and Reinvestment Act of 2009 (H.R. 1) pertaining to “Build America Bonds”) if the effect of such amendment or repeal is to reduce or eliminate the Issuer Subsidy.

“Fiscal Year” means the fiscal year of the Commission, currently the 12-month period beginning on the first day of June of each calendar year and ending on the last day of May of the following calendar year.

“Fixed Rate Indebtedness” shall mean (1) any indebtedness other than Variable Rate Indebtedness and (ii) indebtedness which, except for this clause (ii), would be Variable Rate Indebtedness with respect to which the Commission has entered into an interest rate swap agreement with an entity which has an unsecured, uninsured and unguaranteed long-term obligation rated in one of its three highest long-term rating categories (without reference to such gradations such as “plus” or “minus”) by each Rating Agency which has assigned a rating both to such indebtedness and to such obligation and pursuant to which agreement the Commission makes interest payments based on one or more rates of interest each of which is established at a single numerical rate for the entire remaining term of such agreement, provided that such Variable Rate Indebtedness shall be deemed to be Fixed Rate Indebtedness only while such agreement remains in effect and if any counterparty thereto is not in default thereunder, and provided further that, for purposes of determining whether the conditions set forth in the Indenture have been satisfied, such Variable Rate Indebtedness shall be deemed to be Fixed Rate Indebtedness only if the terms of such agreement provide that it will remain in effect as long as any Bond to which such agreement relates is Outstanding. Notwithstanding the foregoing, if two Series of Bonds constituting Variable Rate Indebtedness, or one or more maturities within a Series, are issued simultaneously with inverse floating interest rates providing a composite fixed interest rate for such Bonds taken as a whole, such Bonds shall constitute Fixed Rate Indebtedness.

“Government Obligations” shall mean direct obligations of, or obligations, the principal and interest of which are unconditionally guaranteed by, the United States of America.

“Historic Tax Revenues” shall mean Tax Revenues for any 12 consecutive calendar months within the preceding 24 months, with such adjustments as may be required by the Indenture.

“Indenture” shall mean the Indenture as amended and supplemented.

“Interest Payment Date” has the meaning, respect to the 2018 Bonds, described in the forepart of this Official Statement.

“Issuer Subsidy” means the 35% cash subsidy payment made by the United States Treasury to the Commission relating to the 2009B Bonds and the 2009E Bonds pursuant to Section 54AA or 6431 of the Code (as such Sections were added by Section 1531 of the American Recovery and Reinvestment Act of 2009 (H.R. 1) pertaining to “Build America Bonds.”

“Maximum Principal and Interest Requirements” shall mean, as to any Bonds under consideration, the maximum Principal and Interest Requirements for any succeeding Fiscal Year on account of the Bonds in question.

“Oil Franchise Tax” means the “oil company franchise tax for highway maintenance and construction” imposed by the Commonwealth pursuant to 75 Pa. C.S.A. Chap. 95.

“Oil Franchise Tax General Fund” shall mean the special fund created by the Indenture.

“Opinion of Counsel” shall mean an opinion or opinions in writing signed by an attorney who is, or a firm of attorneys at law which has a member who is, admitted to practice before the Supreme Court of the Commonwealth of Pennsylvania who may (except as otherwise expressly provided herein) be counsel to the Commission who renders the initial opinion to the purchaser of the Bonds, who shall not be unsatisfactory to the Trustee. If such counsel be an individual, he/she shall not be, and if such counsel be a partnership or professional corporation, it shall not have as a partner or employee an attorney at law who is an officer or employee of the Commission, but such counsel may be regularly retained by or under contract with the Commission. Such opinion or opinions may contain such exceptions, qualifications and limitations as may be customary under the circumstances.

“Outstanding” means, when used with reference to 2018 Bonds, as of a particular date, all 2018 Bonds theretofore authenticated and delivered, except: (a) 2018 Bonds theretofore cancelled by the Trustee or delivered to the Trustee for cancellation pursuant to the provisions hereof; (b) 2018 Bonds which are deemed to have been paid in accordance with the provisions hereof; and (c) 2018 Bonds in exchange for or in lieu of which other 2018 Bonds have been authenticated and delivered pursuant to the provisions hereof.

“Parity Swap Agreement” shall mean an interest rate swap agreement or other agreement of a type described in the Indenture which satisfies the requirements established in the Indenture in order that some or all of the amounts payable by the Commission or the Trustee pursuant to such agreement may be secured by the Tax Revenues on parity with the Bonds to which such agreement relates.

“Paying Agent” shall mean, with respect to the 2018 Bonds, initially, Manufacturers and Traders Trust Company, a New York state banking association.

“Pennsylvania Turnpike System” shall mean the turnpike system of the Commission, all extensions and improvements thereto and any additional projects which may be financed under the provisions of the Enabling Acts.

“Permitted Investments” (to the extent permitted by law) shall mean:

A. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

1. U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
2. Farmers Home Administration (FmHA)
Certificates of beneficial ownership
3. Federal Financing Bank
4. Federal Housing Administration Debentures (FHA)
5. General Services Administration
Participation certificates
6. Government National Mortgage Association (GNMA or “Ginnie Mae”)
GNMA – guaranteed mortgage-backed bonds
GNMA – guaranteed pass-through obligations
(not acceptable for certain cash-flow sensitive issues.)
7. U.S. Maritime Administration
Guaranteed Title XI financing
8. U.S. Department of Housing and Urban Development (HUD) Project
Notes
Local Authority Bonds
New Communities Debentures – U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds

C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System
Senior debt obligations
2. Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”)
Participation Certificates
Senior debt obligations
3. Federal National Mortgage Association (FNMA or “Fannie Mae”)
Mortgage-backed securities and senior debt obligations
4. Student Loan Marketing Association (SLMA or “Sallie Mae”) Senior
Debt obligations
5. Resolution Funding Corp. (REFCORP) obligations
6. Farm Credit System
Consolidated systemwide bonds and notes

D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAM-G; AAA-m and if rated by Moody’s rated Aa, Aal or Aa2.

E. Certificates of Deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the holders of the Bonds must have a perfected first security interest in the collateral.

F. Certificates of Deposit, saving accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

G. Investment Agreements, including GIC’s, Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to MBIA (Investment Agreement criteria is available upon request).

H. Commercial paper rated, at the time of purchase, “Prime-1” by Moody’s and “A-1” or better by S&P.

I. Bonds or notes issued by any state or municipality which are rated by Moody’s and S&P in one of the two highest rating categories assigned by such agencies.

J. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime-1” or “A3” or better by Moody’s and “A-1” or “A” or better by S&P.

K. Repurchase Agreements for 30 days or less must follow the criteria set forth in the Indenture. Repurchase Agreements which exceeded 30 days must be acceptable to the Bond Insurer.

L. Any other investments as approved by the applicable Bond Insurer.

“Person” shall mean an individual, public body, a corporation, a partnership, an association, a joint stock company, a trust and any unincorporated organization.

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

“Principal and Interest Requirements” shall mean (i) the amount of principal and interest becoming due with respect to Bonds in a Fiscal Year, calculated by the Commission or by a Consultant, plus (ii) Reimbursement Obligations payable or estimated by the Commission to be payable in such Fiscal Year (but only to the extent they are not duplicative of such principal and interest), plus (iii) the excess, if any, of amounts payable or estimated by the Commission to be payable by the Commission in such Fiscal Year with respect to interest rate swap agreements (but only to the extent that such excess would not be recognized as a result of the application of the assumptions set forth below) over amounts payable to the Commission in such Fiscal Year pursuant to interest rate swap agreements. The following assumptions shall be used to determine the Principal and Interest Requirements becoming due in any Fiscal Year.

(a) there shall be excluded from Principal and Interest Requirements for all purposes hereof any amounts which are payable (other than upon acceleration) exclusively from a fund or account other than the Senior Bonds Debt Service Fund or the Subordinated Bonds Debt Service Fund or a Credit Facility fund created by a supplemental indenture on parity with either such fund;

(b) payments of principal or interest which are due on the first day of a Fiscal Year shall be assumed to be due on the last day of the immediately preceding Fiscal Year;

(c) in determining the principal amount due with respect to Bonds in each Fiscal Year (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) payment shall be assumed to be made in accordance with any amortization schedule established for such debt, including any scheduled redemption of Bonds on the basis of Accreted Amount, and for such purpose the redemption payment shall be deemed a principal payment;

(d) if any of the Outstanding Series of Bonds constitutes Balloon Indebtedness or Balloon Indebtedness and Variable Rate Indebtedness or if Bonds then proposed to be issued would constitute Balloon Indebtedness or Balloon Indebtedness and Variable Rate Indebtedness, then such amounts as constitute Balloon Indebtedness shall be treated as if such Bonds were to be amortized in substantially equal annual installments of principal and interest over a term equal to the number of years then remaining to the final maturity of such Bonds; the interest rate used

for such computation shall be: (i) in the case of Fixed Rate Indebtedness, the interest rate of such Bonds; and (ii) in the case of Variable Rate Indebtedness, the Assumed Variable Rate, provided that if the maximum interest rate payable by the Commission with respect to any or all Variable Rate Indebtedness has been limited pursuant to an interest rate swap agreement, then the interest rate to be used for the aforesaid computation with respect to the Variable Rate Indebtedness covered by such interest rate swap agreement shall not exceed the sum of (A) the maximum interest rate as so limited, and (B) the annual charges payable by the Commission pursuant to said Parity Swap Agreement, expressed as a percentage of the principal amount of the Variable Rate Indebtedness which is covered thereby, provided that if any or all of such Variable Rate Indebtedness then constitutes a Pledged Bond, the interest rate to be used for the aforesaid computation with respect to the principal amount of such Pledged Bond shall be 125% of the rate then applicable to the Commission's Reimbursement Obligation under its Reimbursement Agreement with the Bank in question;

(e) if any Outstanding Bond constitutes Tender Indebtedness or if any Bond then proposed to be issued would constitute Tender Indebtedness, then for purposes of determining the amounts of principal and interest due in any Fiscal Year on such Bond, the options or obligations of the owners of such Bonds to tender the same for purchase or payment prior to their stated maturity or maturities shall be treated as a principal maturity (but any such amount treated as a maturity shall not be eligible for treatment as Balloon Indebtedness) occurring on the first date on which owners of such Bonds may or are required to tender such Bonds, except that any such option or obligation to tender Bonds shall be ignored and not treated as a principal maturity if both (a) such Bonds are rated in one of the two highest long-term rating categories (without reference to gradations such as "plus" or "minus") by each Rating Agency which has assigned a rating to any such Outstanding Bond at the request of the Commission or such Bonds are rated in the highest short-term note or commercial paper rating category by each Rating Agency which has assigned a rating to any such Outstanding Bond at the request of the Commission, and (b) any obligation the Commission may have, other than its obligation on such Bonds, to reimburse any person for having extended a credit or liquidity facility or a bond insurance policy, or similar arrangement, shall be a Reimbursement Obligation with respect to an obligation incurred under and meeting the tests and conditions set forth in the Indenture.

(f) if any Bond proposed to be issued will be a Variable Rate Indebtedness, the interest rate on such Bond shall be assumed to be the Assumed Variable Rate, provided that if the maximum interest rate payable by the Commission with respect to any or all of such Bonds has been limited pursuant to an interest rate swap agreement, then the interest rate to be used for the aforesaid computation with respect to the Variable Rate Bonds covered by such interest rate swap agreement shall not exceed the sum of (A) the maximum interest rate as so limited, and (B) the annual charges payable by the Commission pursuant to said interest rate swap agreement, expressed as a percentage of the principal amount of the Variable Rate Bonds which is covered thereby, and provided further that if any or all of such Variable Rate Bonds then constitute a Pledged Bond, the interest rate to be used for the aforesaid computation with respect to the principal amount of such Pledged Bond shall be 125% of the rate then applicable to the Commission's Reimbursement Obligation under its Reimbursement Agreement with the Bank in question;

(g) if moneys or Government Obligations (or, if one or more Credit Facilities are in effect which assure the timely payment of the principal of and interest on all Outstanding Bonds and if the Banks providing such Credit Facilities so agree in a written instrument filed with the Trustee, other Permitted Investments) have been irrevocably deposited with and are held by the Trustee or another fiduciary to be used to pay principal and/or interest on any specified Bond or Bonds or the fees and expenses of a Bank or a remarketing agent, then the principal and/or interest to be paid from such moneys, from Government Obligations (or other Permitted Investments, if permitted as described above) or from the earnings thereon shall be disregarded and not included in calculating Principal and Interest Requirements.

“Project” shall mean the application of the proceeds of the 2018 Bonds described in the forepart of this Official Statement and any additional projects or refundings which are authorized by the Enabling Acts.

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

“Rating Agency” shall mean each nationally recognized securities rating agency then maintaining a rating on any of the Bonds at the request of the Commission, unless the context only applies the term to one Series of Bonds, in which event it shall mean only such rating agency then maintaining a rating on such Series of Bonds. Initially, “Rating Agency” means Moody’s Investors Service, Inc. and Fitch Ratings, Inc., or their successors.

“Reimbursement Agreement” shall mean an agreement between the Commission and one or more Banks pursuant to which, among other things, such Bank or Banks issue a Credit Facility with respect to Bonds of one or more series and the Commission agrees to reimburse such Bank or Banks for any drawings made thereunder, including any security or pledge agreement entered into in connection therewith pursuant to which the Commission grants the Bank or Banks a security interest in any collateral to secure its obligations to the Bank or Banks.

“Reimbursement Obligation” shall mean an obligation of the Commission pursuant to a Reimbursement Agreement to repay any amounts drawn under a Credit Facility, to pay any interest on such drawn amounts pursuant to such Reimbursement Agreement and to pay any Bank Fee owed pursuant thereto.

“Revenue Fund” shall mean the special fund created by the provisions of the Indenture.

“Senior Bonds” shall mean the 2018A Bonds, the 2016A Bonds, the 2013A Bonds, the 2009A Bonds, the 2009B Bonds, the 2009C Bonds, Series A of the 2006 Senior Bonds, the Series A and Series C of the 2003 Senior Bonds, and any Additional Senior Bonds issued under the Indenture which shall provide that such Senior Bonds are senior in right of payment and security to the Subordinated Bonds.

“Senior Bonds Debt Service Fund” shall mean the special fund created by the Indenture.

“Senior Bonds Sinking Fund” shall mean the special fund created by the Indenture.

“Sinking Fund” shall mean the Senior Bonds Sinking Fund and the Subordinated Bonds Sinking Fund.

“Special Record Date” shall mean the date established by the Trustee for the payment of interest on the 2018 Bonds not paid on a regularly scheduled Interest Payment Date.

“Subordinated Bonds” shall mean the 2018B Bonds, the 2016B Bonds, the 2013B Bonds, the 2009D Bonds, the 2009E Bonds, the Series B of the 2006 Subordinated Bonds, the Series B of the 2003 Subordinated Bonds, and any Additional Subordinated Bonds which may be issued under the Indenture which shall provide that such Subordinated Bonds are junior in right of payment and security to the Senior Bonds.

“Subordinated Bonds Debt Service Fund” shall mean the special fund created by the Indenture.

“Subordinated Bonds Debt Service Reserve Fund” shall mean the special fund created by the Indenture.

“Subordinated Bonds Debt Service Reserve Requirement” shall mean that amount equal to one-half of the maximum Principal and Interest Requirements for any succeeding Fiscal Year on account of the Subordinated Bonds in question.

“Subordinated Bonds Sinking Fund” shall mean the special fund created by the Indenture.

“Swap Receipts” shall mean any payments payable by a Parity Swap Agreement Counterparty under a Parity Swap Agreement; provided that termination payments payable by such Parity Swap Agreement Counterparty shall be considered a Swap Receipt only to the extent, and at such time as, the Commission has determined that such payment (or portion thereof) will not be expended by the Commission to obtain a replacement Parity Swap Agreement.

“Tax Receipts” shall mean the amounts received by the Trustee from the Commonwealth and paid from the Oil Franchise Tax.

“Tax Revenues” shall mean the Tax Receipts or any receipts, revenues and other money received by the Trustee on or after the date of the Indenture from any tax or other source of funds from the Commonwealth in substitution and/or replacement of the Tax Receipts and the interest and income earned on any fund or account where said interest or income is required to be credited to the Revenue Fund pursuant to the Indenture, but excluding any moneys received by way of grant or contribution from any governmental agency or other entity specifically designated by the grantor or contributor for a particular purpose.

“Tender Indebtedness” shall mean any Bond or portion thereof a feature of which is an option, on the part of the Bond Owner, or an obligation under the terms of such Bond, to tender all or a portion of such Bond to the Commission, the Trustee, the Paying Agent or other fiduciary or agent for payment or purchase and requiring that such Bond or portion thereof be purchased if properly presented.

“Treasurer’s Certificate” shall mean a certificate signed by the Treasurer, Assistant Treasurer or Deputy Executive Director/Finance and Administration of the Commission containing the data specified in the Indenture.

“Trustee” shall mean the Trustee at the time in question, whether original or successor.

“2003 Bonds” shall mean collectively the \$16,440,000 Oil Franchise Tax Subordinated Revenue Bonds, Series B of 2003 and the \$160,000,000 Oil Franchise Tax Senior Revenue Bonds, Series C of 2003.

“2006 Bonds” shall mean collectively the \$75,425,000 Oil Franchise Tax Senior Revenue Refunding Bonds, Series A of 2006, and the \$129,350,000 Oil Franchise Tax Subordinated Revenue Refunding Bonds, Series B of 2006.

“2009 Bonds” shall mean, collectively, the 2009A Bonds, the 2009B Bonds, the 2009C Bonds, the 2009D Bonds and the 2009E Bonds.

“2009A Bonds” shall mean the \$13,245,000 Oil Franchise Tax Senior Revenue Bonds, Series A of 2009 consisting of Oil Franchise Tax Senior Revenue Bonds, Subseries A-1 of 2009 (Refunding) and Oil Franchise Tax Senior Revenue Bonds, Subseries A-2 of 2009.

“2009B Bonds” shall mean the \$127,170,000 Oil Franchise Tax Senior Revenue Bonds, Series B of 2009 (Federally Taxable-Issuer Subsidy-Build America Bonds).

“2009C Bonds” shall mean the \$15,461,246 Oil Franchise Tax Senior Revenue Bonds, Series C of 2009.

“2009D Bonds” shall mean the \$25,290,000 Oil Franchise Tax Subordinated Revenue Bonds, Series D of 2009 consisting of Oil Franchise Tax Subordinated Revenue Bonds Subseries D-1 of 2009 (Refunding) and Oil Franchise Tax Subordinated Revenue Bonds, Subseries D-2 of 2009.

“2009E Bonds” shall mean the \$102,505,000 Oil Franchise Tax Subordinated Revenue Bonds, Series E of 2009 (Federally Taxable-Issuer Subsidy-Build America Bonds).

“2013A Bonds” shall mean the \$23,120,000 Oil Franchise Tax Senior Revenue Refunding Bonds, Series A of 2013.

“2013B Bonds” shall mean the \$24,215,000 Oil Franchise Tax Subordinated Revenue Bonds, Series B of 2013.

“2016A Bonds” shall mean the \$198,595,000 Oil Franchise Tax Senior Revenue Refunding Bonds, Series A of 2016.

“2016B Bonds” shall mean the \$115,395,000 Oil Franchise Tax Subordinated Revenue Refunding Bonds, Series B of 2016.

“Variable Rate Indebtedness” shall mean: (i) any indebtedness the interest rate applicable to which is established at the time of incurring of such indebtedness at a rate which can increase during the entire term thereof or will at some subsequent date be established at a rate which can increase during the entire term thereof; and (ii) indebtedness which, except for this clause (ii), would be Fixed Rate Indebtedness but with respect to which the Commission has entered into an interest rate swap agreement with an entity which (or the guarantor of whose obligation) has an unsecured, uninsured and unguaranteed long-term obligation rated in one of its three highest long-term rating categories (without regard to gradation such as “plus” or “minus”) by each Rating Agency which has assigned a rating both to such indebtedness and to such obligation and pursuant to which agreement the Commission makes interest payments based on a rate of interest which is not established at a single numerical rate for the entire remaining term of such agreement, provided that such Fixed Rate Indebtedness shall be deemed to be Variable Rate Indebtedness only while such agreement remains in effect and only if the counterparty thereto is not in default thereunder.

THE INDENTURE

Grant of Security Interest

Pursuant to the Indenture, the Commission has granted a security interest in and pledged and assigned unto the Trustee (i) all Tax Revenues, (ii) the right of the Commission to receive the Commission Allocation and any amounts of the Commission Allocation actually received by the Commission, (iii) all monies deposited into accounts or funds created by the Indenture (other than the Rebate Fund), (iv) all Swap Receipts, (v) the Issuer Subsidy and (vi) all investment earnings on all monies held in accounts and funds established by the Indenture (other than the Rebate Fund) (all of these items shall collectively be known as the “Trust Estate”) as security for the payment of the Bonds and the interest thereon and as security for the satisfaction of any other obligation assumed by it in connection with such Bonds, including any Parity Swap Agreements and Reimbursement Obligations.

Limitations on Issuance of Indebtedness

The Commission covenants in the Indenture that it will not incur any indebtedness which is secured by the Tax Revenues while the Indenture is in effect except in accordance with the provisions of the Indenture.

Issuance of Additional Bonds

Additional Senior Bonds and Additional Subordinated Bonds may be issued under and secured by the Indenture for the purpose of paying the cost of all or any part of any Additional Project or for the purpose of refunding all or any portion of the Bonds then outstanding and, if elected by the Commission as hereinafter set forth, all or a portion of the expenses incurred by the Commission in connection with the issuance of such Bonds.

Before any such Bonds shall be authenticated by the Authenticating Agent and delivered by the Trustee, there shall be filed with the Trustee the following: (a) the documents required by the Indenture for issuance of Additional Bonds generally and for the particular type of Additional Bonds being issued; (b) a Supplemental Indenture executed by the Commission in an appropriate number of counterparts setting forth, subject to the provisions of the Indenture, the terms and provisions of such Additional Bonds; and (c) An opinion of Bond Counsel that the issuance of the Additional Bonds will not adversely affect the tax-exempt status of all outstanding Bonds.

Additional Bonds may be issued for the following purposes and subject to the following additional conditions:

Issuance of Additional Bonds for any Additional Projects

Additional Senior Bonds and Additional Subordinated Bonds may be issued under and secured by the Indenture, to the extent from time to time permitted by law, at any time or times for the purpose of paying the cost of any Additional Project and for paying costs incurred in issuing such Additional Bonds and for necessary contributions to the Subordinated Bonds Debt Service Reserve Fund if Additional Subordinated Bonds are being issued.

Such Additional Bonds shall not be authenticated by the Authenticating Agent nor delivered by the Trustee, unless there shall be filed with the Trustee the documents required by the Indenture for issuance of Additional Bonds generally and unless there shall be filed with the Trustee a Treasurer's Certificate demonstrating and concluding that the Historic Tax Revenues were not less than 200% of the Maximum Principal and Interest Requirements on account of all Senior Bonds to be outstanding under the Indenture after the issuance of proposed Additional Senior Bonds and not less than 115% of the Maximum Principal and Interest Requirements on account of all Bonds to be outstanding under the Indenture after the issuance of Additional Subordinated Bonds.

In any computation of Historic Tax Revenues for purposes of the Indenture, if the rate or rates at which the Oil Franchise Tax was imposed or the percentage of Tax Receipts received by the Commission during all or any part of the period for which any such calculation is made shall

be different from the rate or rates at which the Oil Franchise Tax is imposed or the percentage of Tax Receipts received by the Commission in effect at the time such calculation is made, there shall be added to or deducted from said Tax Revenues so calculated, any increase or decrease in the Tax Revenues for such period which would result from such different rate or rates or percentage.

Issuance of Additional Bonds for Refunding

Additional Senior Bonds and Additional Subordinated bonds may be issued under and secured by the Indenture, at any time or times, for the purpose of providing funds for refunding or advance refunding all of the outstanding Senior Bonds or Subordinated Bonds, respectively, of any series issued under the provisions of the Indenture, or any portion of the Bonds of any such series, including in each case the payment of any redemption premium thereon and the costs of issuance.

Before such Bonds shall be authenticated by the Authenticating Agent and delivered by the Trustee, there shall be filed with the Trustee the following: (a) the documents required by the Indenture for issuance of Additional Bonds generally; (b) in case all or a portion of such Bonds are to be issued for the purpose of redeeming Bonds prior to their stated maturity or maturities, such documents as shall be required by the Trustee to show that provision has been duly made for the redemption of such Bonds; and (c) a certificate of an independent public accountant verifying that the proceeds (excluding accrued interest, but including any premium and after deducting an amount equal to all expenses incurred by the Commission in connection with the issuance of such Bonds to the extent that said expenses are to be paid from such proceeds) of such refunding Bonds and any investment income earned thereon shall be not less than an amount sufficient to pay the principal of and the redemption premium, if any, on the Bonds to be refunded, and, if permitted by law and deemed necessary by the Commission, the payment of interest thereon to the date of redemption.

The Authenticating Agent and Trustee, however, shall not authenticate and deliver such Bonds unless they receive a certificate signed by the Treasurer or Assistant Treasurer of the Commission demonstrating, with respect to Additional Senior Bonds, that the percentage derived by dividing the amount of the Historic Tax Revenues by the Maximum Principal and Interest Requirements on Senior Bonds outstanding after delivery of such Additional Bonds shall be either (i) at least 200% or (ii) not less than the percentage obtained by dividing such amounts prior to delivery of such Additional Senior Bonds and with respect to Additional Subordinated Bonds, that the percentage derived by the amount of the Historic Tax Revenues by the Maximum Principal and Interest Requirements on Bonds outstanding after delivery of such Additional Subordinated Bonds shall be either (i) at least 115% or (ii) not less than the percentage obtained by dividing such amounts prior to delivery of such Additional Subordinated Bonds.

Clearing Fund

The Indenture creates a special fund, called the “2018 Clearing Fund,” which shall be held in trust by the Trustee for deposit and disbursement of the net proceeds of the sale of the 2018 Bonds.

Revenue Fund

The Indenture creates a special fund called the “Revenue Fund.” The moneys in the Revenue Fund shall be held by the Trustee in trust and applied as provided in the Indenture.

The Commission acknowledges in the Indenture that it has irrevocably directed the Commonwealth to transfer all Tax Receipts which the Commission is entitled to receive from the Commonwealth to the Trustee for deposit into the Revenue Fund. Notwithstanding the foregoing, the Commission covenants that any and all Tax Receipts or other Tax Revenues which it receives initially will be deposited into a segregated account of the Commission and will be transferred therefrom within one (1) Business Day following receipt, as far as practicable, with the Trustee or in the name of the Trustee with a depository or depositories designated by the Commission and approved by the Trustee, to the credit of the Revenue Fund.

All sums received by the Commission from any other source for paying any part of the cost of a Project for which any Bonds have been or will be issued shall be deposited into a separate fund (which may or may not be held by the Trustee) established by the Commission for the particular Project.

Senior Bonds Debt Service Fund

The Indenture creates a special fund called the “Senior Bonds Debt Service Fund” which shall be held in trust by the Trustee until applied as provided in the Indenture. The Indenture creates special accounts within the “Senior Bonds Debt Service Fund” designated the “Interest Account” and the “Principal Account”. All moneys held by the Trustee in the Senior Bonds Debt Service Fund shall be applied in accordance with the Indenture.

The Trustee shall withdraw from the Revenue Fund and deposit to the applicable Account in the Senior Bonds Debt Service Fund the amounts hereinafter specified which shall be applied by the Trustee for the purposes for which the same shall be deposited.

- (1) On or before the last Business Day of each calendar month, an amount which equals the amount necessary to pay, and for the purpose of paying, (i) one-sixth (1/6) of the interest due on the Senior Bonds on the next succeeding Interest Payment Date (or, in the case of the period from the date of issuance of the any Senior Bonds to the first Interest Payment Date for the applicable Senior Bond, a monthly amount equal to the product of the interest amount owed on such first Interest Payment Date divided by the number of months from the date of issuance of such Senior Bond to such first Interest Payment Date), which amount shall be deposited in the Interest Account, and (ii) any amount due to the Bond Insurer with respect thereto; provided, however, so long as an

Extraordinary Event has not occurred, the Trustee may assume for purposes of such calculation, that the Issuer Subsidy will be received by the Commission and deposited in the 2009B Issuer Subsidy Fund prior to such Interest Payment Date with respect to the 2009B Bonds.

(2) On or before the last Business Day of each calendar month, an amount which equals one-twelfth (1/12) of the amount necessary to pay (or, in the case of the period from the date of issuance of the any Senior Bonds to the first date on which principal is due on such Senior Bonds a monthly amount equal to the product of the principal amount owed on such first principal maturity date divided by the number of months from the date of issuance of such Senior Bond to such first principal maturity date), and for the purpose of paying, the principal amount of any Senior Bonds maturing on the next succeeding maturity date occurring on or before the second Interest Payment Date following such deposit, which amount shall be deposited in the Principal Account; provided, however, that no deposit shall be made pursuant to this clause (2) on any date which would duplicate deposits required to be made to the Senior Bonds Sinking Fund.

(3) On the dates specified in any Supplemental Indenture relating to Additional Senior Bonds, the amounts required to be deposited on said dates to the credit of the Interest Account or Principal Account pursuant to the provisions of such Supplemental Indenture for the purpose of paying the interest and the principal of such Additional Senior Bonds.

All of such withdrawals, deposits and applications shall be on the same order of priority.

In the event there is a deficiency in the amount required to be deposited into any account in the Senior Bonds Debt Service Fund in any month, the amount of such deficiency shall be added to the amount required to be deposited in to the appropriate account in the Senior Bonds Debt Service Fund in the following month.

The Trustee shall pay out of the Interest Account, from time to time, without further authorization from the Commission, and as the same shall become due and payable, the interest on the Bonds. The Trustee shall likewise pay out of the Principal Account, from time to time, without further authorization from the Commission, and as the same shall become due and payable, the principal of the Senior Bonds, but only upon the presentation and surrender of the Senior Bonds.

If at the time the Trustee is to make a withdrawal from the Senior Bonds Debt Service Fund the moneys therein shall not be sufficient for such purpose, the Trustee shall withdraw the amount of such deficiency from the moneys to the credit of the following funds or accounts in the following order: the Oil Franchise Tax General Fund and the Senior Bonds Sinking Fund.

Senior Bonds Sinking Fund

The Indenture creates a special fund called the “Senior Bonds Sinking Fund” which shall be held in trust by the Trustee until applied as directed in the Indenture. Contemporaneously with, and on the same order of priority as, making deposits described under “Senior Bonds Debt Service Fund,” and while any Senior Bonds are outstanding, the Trustee shall transfer on or before the last Business Day of each calendar month from the Revenue Fund to the Senior Bonds Sinking Fund one-twelfth (1/12) of the principal amount required on the next succeeding mandatory redemption date as specified in the Senior Bonds occurring on or before the first Interest Payment Date following such deposit (or such lesser amount which, when added to the principal amount of Senior Bonds purchased by the Trustee during the Fiscal Year pursuant to the second succeeding paragraph, shall equal the above amount); and provided that if any Senior Bond which is subject to mandatory redemption is at any time redeemed pursuant to an Optional Redemption, as described in the Senior Bonds, the principal amount of Senior Bonds of each maturity so redeemed may be applied as a credit against the principal amount of Senior Bonds of such maturity which is subject to mandatory redemption at such time as the Commission shall direct.

On the dates specified in any Supplemental Indenture or indentures relating to Additional Senior Bonds, the Trustee shall transfer from the Revenue Fund the amounts required to be deposited on such dates to the credit of the sinking, purchase or analogous fund, if any, established for such Additional Senior Bonds.

The moneys at any time on deposit to the credit of the Senior Bonds Sinking Fund or to be deposited thereto from the Revenue Fund may be applied by the Commission to the purchase of Senior Bonds of the same maturity of Senior Bonds to be called for mandatory redemption from the Senior Bonds Sinking Fund, and such moneys shall be withdrawn by the Trustee and applied to the payment of the purchase price of Senior Bonds which the Commission may agree to purchase or has paid provided that such purchase price is not in excess of 100% of the principal amount thereof. At the time of any purchase of the Senior Bonds, the Trustee shall withdraw from the Interest Account of the Senior Bonds Debt Service Fund any amounts deposited therein for the payment of interest on the Senior Bonds so purchased. Any Bonds so purchased in lieu of redemption by the Commission shall be cancelled by the Trustee and no longer remain outstanding.

Subordinated Bonds Debt Service Fund

The Indenture creates a special fund called the “Subordinated Bonds Debt Service Fund” which shall be held in trust by the Trustee until applied as provided in the Indenture. The Indenture also creates two separate accounts in the Subordinated Bonds Debt Service Fund to be known as the “Interest Account” and the “Principal Account.”

After the withdrawals described above, the Trustee shall withdraw from the Revenue Fund and deposit to the applicable Account in the Subordinated Bonds Debt Service Fund the amounts hereinafter specified which shall be applied by the Trustee for the purposes for which the same shall be deposited:

(1) On or before the last Business Day of each calendar month, an amount which equals the amount necessary to pay, and for the purpose of paying, (i) one-sixth (1/6) of the interest due on the Subordinated Bonds on the next succeeding Interest Payment Date (or, in the case of the period from the date of issuance of the Subordinated Bonds to the first Interest Payment Date for the applicable Subordinated Bond, a monthly amount equal to the product of the interest amount owed on such first Interest Payment Date divided by the number of months from the date of issuance of such Subordinated Bond to such first Interest Payment Date), which amount shall be deposited in the Interest Account and (ii) any amount due to the Bond Insurer with respect thereto; provided, however, so long as an Extraordinary Event has not occurred, the Trustee may assume for purposes of such calculation, that the Issuer Subsidy will be received by the Commission and deposited in the 2009E Issuer Subsidy Fund prior to such Interest Payment Date with respect to the 2009E Bonds.

(2) On or before the last Business Day of each calendar month an amount which equals one-twelfth (1/12) of the amount necessary to pay, and for the purpose of paying, the principal amount of any Subordinated Bonds maturing on the next succeeding maturity date (or, in the case of the period from the date of issuance of the any Subordinated Bonds to the first maturity date for the applicable Subordinated Bond, a monthly amount equal to the product of the principal amount owed on such first maturity date divided by the number of months from the date of issuance of such Subordinated Bond to such first maturity date), including any amounts due the Bond Insurer with respect thereto, which amount shall be deposited in the Principal Account; provided, however, that no deposit shall be made pursuant to this clause (2) on any date which would duplicate deposits required to be made to the Subordinated Bonds Sinking Fund; and

(3) On the dates specified in any Supplemental Indenture relating to Additional Subordinated Bonds, the amounts required to be deposited on said dates to the credit of the Interest Account or Principal Account pursuant to the provisions of such Supplemental Indenture for the purpose of paying the interest and the principal of such Additional Subordinated Bonds.

In the event there is a deficiency in the amount required to be deposited into any account in the Subordinated Bonds Debt Service Fund in any month, the amount of such deficiency shall be added to the amount required to be deposited in to the appropriate account in the Subordinated Bonds Debt Service Fund in the following month.

The Trustee shall pay out of the Interest Account, from time to time, without further authorization from the Commission, and as the same shall become due and payable, the interest on the Subordinated Bonds. The Trustee shall likewise pay out of the Principal Account, from time to time, without further authorization from the Commission, and as the same shall become due and payable, the principal of the Subordinated Bonds, but only upon the presentation and surrender of the Subordinated Bonds.

If at the time the Trustee is to make a withdrawal from the Subordinated Bonds Debt Service Fund the moneys therein shall not be sufficient for such purpose, the Trustee shall withdraw the amount of such deficiency from the moneys to the credit of the following funds or accounts in the following order: the Subordinated Bonds Debt Service Reserve Fund, the Oil Franchise Tax General Fund and the Subordinated Bonds Sinking Fund.

Subordinated Bonds Sinking Fund

The Indenture creates a special fund called the “Subordinated Bonds Sinking Fund” which shall be held in trust by the Trustee until applied as directed in the Indenture. After first having made the deposits into the Senior Bonds Debt Service Fund, the Senior Bonds Sinking Fund and contemporaneously with, and on the same order of the priority as, making the deposits described under “Subordinated Bonds Debt Service Fund,” while any Subordinated Bonds are outstanding, the Trustee shall transfer on or before the last Business Day of each calendar month from the Revenue Fund to the Subordinated Bonds Sinking Fund one-twelfth of the principal amount required on the next succeeding mandatory redemption date as specified in the Subordinated Bonds occurring on or before the first Interest Payment Date following such deposit (or such lesser amount which, when added to the principal amount of Subordinated Bonds purchased by the Trustee during the Fiscal Year pursuant to the second succeeding paragraph, shall equal to the above amount); and provided that if any Subordinated Bond which is subject to mandatory redemption is at any time redeemed pursuant to an Optional Redemption, as described in the Subordinated Bonds, the principal amount of Subordinated Bonds of each maturity so redeemed may be applied as a credit against the principal amount of Subordinated Bonds of such maturity which is subject to mandatory redemption at such time as the Commission shall direct.

On the dates specified in any Supplemental Indenture or Indentures relating to Additional Subordinated Bonds, the Trustee shall transfer from the Revenue Fund the amounts required to be deposited on such dates to the credit of the sinking, purchase or analogous fund, if any, established for such Additional Subordinated Bonds.

The moneys at any time on deposit to the credit of the Subordinated Bonds Sinking Fund or to be deposited thereto from the Revenue Fund may be applied by the Commission to the purchase of Subordinated Bonds of the same maturity of Subordinated Bonds to be called for mandatory redemption from the Subordinated Bonds Sinking Fund, and such moneys shall be withdrawn by the Trustee and applied to the payment of the purchase price of Subordinated Bonds which the Commission may agree to purchase or has paid, provided that such purchase price is not in excess of 100% of the principal amount thereof. At the time of any purchase of the Subordinated Bonds, the Trustee shall withdraw from the Interest Account of the Subordinated Bonds Debt Service Fund any amounts deposited therein for the payment of interest on the Subordinated Bonds so purchased. Any Bonds so purchased in lieu of redemption by the Commission shall be cancelled by the Trustee and no longer remain outstanding.

Subordinated Bonds Debt Service Reserve Fund

The Indenture creates a special fund called the “Subordinated Bonds Debt Service Reserve Fund” which is a common debt service reserve fund for all Subordinated Bonds under the Indenture. In each Fiscal Year after first having made the deposits into the Subordinated Bonds Debt Service Fund and the Subordinated Bonds Sinking Fund described above and while any Subordinated Bonds are outstanding the Trustee shall transfer from the Revenue Fund on or before the Business Day immediately preceding an Interest Payment Date to the credit of the Subordinated Bonds Debt Service Reserve Fund out of the balance if any remaining in the Revenue Fund the amount if any required to make the funds deposited in the Subordinated Bonds Debt Service Reserve Fund equal to the Subordinated Bonds Debt Service Reserve Requirement. The Trustee shall also transfer the amount set forth in any Supplemental Indenture under which Subordinated Bonds are issued.

In the event the Trustee shall be required to withdraw funds from the Subordinated Bonds Debt Service Reserve Fund to restore a deficiency in the Subordinated Bonds Debt Service Fund or the Subordinated Bonds Sinking Fund, the amount of such deficiency shall be allocated pro rata among the accounts, any surety bond or policy and unallocated funds in the Subordinated Bonds Debt Service Reserve Fund that relate to the series of Subordinated Bonds for which payment is coming due on the next succeeding payment date on the basis of the ratio that the Subordinated Bonds Debt Service Reserve Requirement for each particular series of Bonds for which payment is coming due bears to the Subordinated Bonds Debt Service Reserve Requirement for all Series of Bonds for which payment is coming due on the next succeeding payment date.

In lieu of the deposit of money into or the maintenance of required amounts in the Subordinated Bonds Debt Service Reserve Fund, the Commission may cause to be provided a surety bond or insurance policy as further described in the forepart of this Official Statement under “SECURITY FOR THE 2018 BONDS – Subordinated Bonds Debt Service Reserve Fund.”

Except as provided in the Indenture with respect to refunding Subordinated Bonds, moneys held for the credit of the Subordinated Bonds Debt Service Reserve Fund shall be used for the purpose of paying interest on, maturing principal and mandatory sinking fund redemption price of Subordinated Bonds whenever and to the extent that the moneys held for the credit of the Subordinated Bonds Debt Service Fund or any Subordinated Bonds Sinking Fund shall be insufficient for such purpose. If at any time the moneys and principal amount of any surety bond, insurance policy or letter of credit held for the credit of the Subordinated Bonds Debt Service Reserve Fund shall exceed the Subordinated Bonds Debt Service Reserve Requirement, such excess shall be transferred by the Trustee to the credit of the Revenue Fund or used to reduce the principal amount of any surety bond, insurance policy or letter of credit.

Oil Franchise Tax General Fund

The Indenture creates a special fund called the “Oil Franchise Tax General Fund” which shall be held in trust by the Trustee until applied as described-below. After first having made the

deposits provided in the Indenture and described above and while any Bonds are Outstanding, the Trustee shall transfer from the Revenue Fund on or before the Business Day immediately preceding an Interest Payment Date to the credit of the Oil Franchise Tax General Fund the balance, if any, in excess of \$10,000,000 remaining after making the required deposits described above.

Except as otherwise provided in the Indenture, moneys held for the credit of the Oil Franchise Tax General Fund shall be withdrawn by the Trustee, without further authorization from the Commission, to make up deficiencies in any funds or accounts created under the Indenture, and absent any such deficiency, may be expended by the Commission, upon requisition to the Trustee, for any of the following purposes, with no one item having priority over any of the others, as long as such application of Oil Franchise Tax Receipts is permitted by law: (a) to purchase or redeem Bonds or any other obligations of the Commission; (b) to make payments into the Construction Fund; (c) to make improvements, extensions and replacements of the Pennsylvania Turnpike System; and (d) to further any lawful corporate purpose.

Issuer Subsidy Funds

The Fifth Supplemental Indenture created funds designated the “2009B Issuer Subsidy Fund” and “2009E Issuer Subsidy Fund” for deposit of the Issuer Subsidy relating to the 2009B Bonds and 2009E Bonds, respectively, and so long as no Event of Default has occurred and is continuing under the Indenture, for application solely to the payment of interest on the 2009B Bonds and 2009E Bonds, respectively.

Upon the occurrence of an Event of Default, funds on deposit in the 2009B Issuer Subsidy Fund shall be transferred to the Senior Bonds Debt Service Fund and funds on deposit in the 2009E Issuer Subsidy Fund shall be transferred to the Subordinated Bonds Debt Service Fund and applied as described herein.

Depositaries of Moneys, Security for Deposits and Investments of Moneys

All moneys received by the Commission under the provisions of the Indenture shall be deposited with the Trustee or with one or more other bank or trust companies to be designated by the Commission with the approval of the Trustee (any such depositary, including the Trustee, being herein called a “Depositary”). All moneys deposited under the provisions of the Indenture with the Trustee or any other Depositary shall be held in trust and applied only in accordance with the provisions of the Indenture, and shall not be subject to lien or attachment by any creditor of the Commission.

All moneys deposited with the Trustee or any other Depositary under the Indenture shall be continuously and fully secured unless or until invested as provided in the Indenture for the benefit of the Commission and the holders of the Bonds, by Government Obligations or direct and general obligations of the Commonwealth of Pennsylvania or otherwise in accordance with the laws of the Commonwealth of Pennsylvania governing trust funds of public bodies. Such security shall have an aggregate market value exclusive of accrued interest at all times at least

equal to the amount of moneys so deposited. Such security shall be deposited with a Federal Reserve Bank or with the corporate trust department of the Trustee.

Moneys held in any of the funds or accounts under the Indenture may be retained uninvested, if deemed necessary by the Commission, as trust funds and secured as provided above or may be invested in Permitted Investments. All such investments shall be made by the Trustee only upon the oral request of the Commission immediately confirmed in writing by a Commission Official specifying the account or fund from which moneys are to be invested and designating the specific investments to be acquired. Moneys on deposit with respect to the 2018 Bonds shall be invested by the Trustee solely in Permitted Investments, to the extent permitted by applicable law, at the written direction of the Commission.

All such investments made pursuant to the Indenture shall be subject to withdrawal or shall mature or be subject to redemption by the holder at not less than the principal amount thereof or the cost of acquisition, whichever is lower, not later than the earlier of (i) 15 years from the date of such investment or (ii) the date on which the moneys may reasonably be expected to be needed for the purpose of the Indenture. The foregoing provisions shall not prevent the Commission or the Trustee from selling such investments at less than the principal amount thereof or the cost of acquisition.

Covenants as to Tax Revenues

The Commission covenants in the Indenture that it will seek to enforce the pledge and appropriation of the Commonwealth with respect to the Oil Franchise Tax which is described in the recitals hereto, and it will petition the General Assembly for additional funds in the event that the Tax Revenues are inadequate to pay the amounts due hereunder.

The Trustee may and, upon receipt of written direction from the holders of not less than twenty-five percent (25%) in principal amount of the Bonds then outstanding and upon being indemnified to its satisfaction, shall institute and prosecute in a court of competent jurisdiction any appropriate action to enforce the pledge and appropriation of the Commonwealth with respect to the Oil Franchise Tax which is described in the recitals hereto.

Other Covenants of Commission

Pursuant to the Indenture, the Commission has made the following additional covenants, among others, to the Trustee:

- (a) To promptly pay the principal of and the interest on every Bond issued under the provisions of the Indenture at the places, on the dates and in the manner provided in the Indenture and in said Bonds and any premium required for the retirement of said Bonds by purchase or redemption, according to the true intent and meaning thereof, but only from the Tax Revenues, which Tax Revenues are pledged by the Commission to the payment thereof in the manner and to the extent hereinabove particularly specified, and from the remainder of the Trust Estate.

(b) Not to create or suffer to be created any lien or charge upon the Tax Revenues, or any part thereof except the lien and charge of the Bonds secured by the Indenture and any Subordinated Indebtedness permitted pursuant to the Indenture.

(c) Until the Bonds secured by the Indenture and the interest thereon shall have been paid or provision for such payment shall have been made, not to use the Tax Revenues for any purpose other than as provided in the Indenture, and not enter into any contract or contracts or take any action by which the rights of the Trustee or of the Bondholders might be impaired or diminished. Notwithstanding the above, the Commission shall be permitted to incur Subordinated Indebtedness pursuant to the provisions of the Indenture.

(d) To keep accurate records of its receipt of Tax Revenues. Such records shall be open to the inspection of the holders of the Bonds and their agents and representatives.

(e) To make no investment or other use of the proceeds of 2018 Bonds which would cause such Bonds to be “arbitrage bonds” as that term is defined in Section 148 of the Code, and all applicable regulations promulgated with respect thereto; to comply with the requirements of the Code and applicable regulations promulgated with respect thereto; to comply with the requirements of the code and applicable regulations throughout the term of the 2018 Bonds; and not to take any action, omit to take any action, or permit any other person to take any action or fail to take any action over which the Commission has control, which action or inaction would cause the interest on the 2018 Bonds to be subject to federal income tax to a greater extent than on the date of issuance of such Bonds.

Financial Statements; Available Information

The Commission also covenants in the Indenture, in each Fiscal Year, to cause an annual audit to be made of its books and accounts by an independent certified public accountant of recognized ability and standing. Promptly thereafter, reports of such audit shall be filed with the Commission and the Trustee, and copies of such reports shall be mailed by the Commission to all holders of the Bonds who shall have filed their names and addresses with the Secretary and Treasurer of the Commission for such purpose. Each annual audit report shall set forth in respect of the preceding twelve-month period the findings of such certified public accountants whether Tax Revenues under the Provision for the Indenture have been applied in accordance with the provisions of the Indenture. Such audit reports shall be open to the inspection of the holders of the Bonds and their agents and representatives.

The Commission further covenants that it will cause any additional reports or audits to be made as required by law and that, as often as may be requested, it will furnish to the Trustee, and the holder of any Bond such other information concerning the Tax Revenues as any of them may reasonably request and as may be easily provided by the Commission.

Events of Default

The Indenture provides that each of the following events is declared an “event of default”:

(a) payment of the interest on, or principal and premium, if any, of any of the Bonds shall not be made when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise provided that the failure to make a payment with respect to a Subordinated Bond shall not constitute an event of default with respect to Senior Bonds; or

(b) the Commission shall for any reason be rendered incapable of fulfilling its obligations under the Indenture, including, without limitation, as a result of its existence being terminated or expiring; or

(c) the Commission shall (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian or the like for it or for all or a substantial part of its property, or (ii) admit in writing the inability to pay its debts generally as they become due, or (iii) make a general assignment for the benefit of creditors, or (iv) be adjudicated a bankrupt or insolvent, or (v) commence a voluntary case under the United States Bankruptcy Code or file a voluntary petition or answer seeking reorganization, an arrangement with Creditors or an order for relief or seeking to take advantage of any insolvency law or file an answer admitting the material allegations of a petition filed against it in any bankruptcy reorganization or insolvency proceeding, or action of the Commission shall be taken for the purpose of effecting any of the foregoing, or (vi) take any corporate action or other action to authorize any of the foregoing, or (vii) if without the application, approval or consent of the Commission, a proceeding shall be instituted in any court of competent jurisdiction, under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking in respect of the Commission an order for relief or an adjudication in bankruptcy, reorganization, dissolution, winding-up or liquidation, a composition or arrangement with creditors, a readjustment of debts, the appointment of a trustee, receiver, liquidator or custodian or the like of the Commission or of all or any substantial part of its assets or other like relief in respect thereof under any bankruptcy or insolvency law, and, if such proceeding is being contested by the Commission in good faith, the same shall (A) result in the entry of an order for relief or any such adjudication or appointment, or (B) remain undismissed and undischarged for a period of sixty (60) days;

(d) any proceeding shall be instituted, with the consent or acquiescence of the Commission, for the purpose of effecting a compromise between the Commission and its creditors or for the purpose of adjusting the claims of such creditors, pursuant to any federal or state statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable from the Tax Revenues; or

(e) the Commission shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or

in the Indenture and such default shall continue for thirty (30) days after written notice specifying such default and requiring same to be remedied shall have been given to the Commission by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the holders of not less than ten percent (10%) in principal amount of the Bonds then outstanding, provided, however, that if the default cannot be remedied within thirty (30) days and the Commission begins to diligently proceed in good faith to remedy said default, then said default shall not be deemed to be a continuing one if, and so long as, the Commission shall diligently and continuously attempt to prosecute the same to completion.

Remedies

Upon the happening and continuance of any default specified in (a) above with respect to the Senior Bonds, then and in every such case the Trustee may, and upon the written request of the holders of not less than twenty-five percent (25%) in principal amount of the Senior Bonds then Outstanding shall, by a notice in writing to the Commission, declare the principal of all of the Bonds then outstanding (if not then due and payable) to be due and payable immediately, and upon such declaration the same shall become and be immediately due and payable, anything contained in the Senior Bonds or in the Indenture to the contrary notwithstanding; provided, however, that if at any time after the principal of the Senior Bonds shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Indenture, moneys shall have accumulated in the Senior Bonds Sinking Fund sufficient to pay the principal of all matured Senior Bonds and all arrears of interest, if any, upon all the Senior Bonds then outstanding (except the principal of any Senior Bonds not then due by their terms and the interest accrued on such Senior Bonds since the last interest payment date), and the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee, and all other amounts then payable by the Commission hereunder shall have been paid or a sum sufficient to pay the same shall have been deposited with the appropriate trustee, and every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Senior Bonds or in the Indenture (other than a default in the payment of the principal of such Senior Bonds then due only because of a declaration under this Section) shall have been remedied to the satisfaction of the Trustee, then and in every such case the Trustee may, and upon the written request of the holders of not less than twenty-five percent (25%) in the principal amount of the Senior Bonds not then due by their terms and then outstanding shall, by written notice to the Commission rescind and annul such declaration and its consequences but no such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

Upon the happening and continuance of any event of default specified in the Indenture, then and in every such case the Trustee may proceed, and upon the written request of the holders of not less than twenty-five percent (25%) in principal amount of the Bonds then outstanding shall proceed subject to the Indenture to protect and enforce its rights and the rights of the holders of the Bonds under the laws of Pennsylvania or under the Indenture by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant or agreement contained

in the Indenture or in aid of execution of any power therein granted or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, shall deem reasonable or necessary to protect and enforce such rights.

In the enforcement of any remedy under the Indenture, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due from the Commission for principal, interest or otherwise under any of the provisions of the Indenture or of the Bonds and unpaid, with interest on overdue payments at the rate or rates of interest specified in such Bonds (to the extent that payment of such interest is enforceable under applicable law), together with any and all costs and expenses of collection and of all proceedings under the Indenture and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the holders of the Bonds and to recover and enforce judgment or decree against the Commission, but solely as provided herein and in such Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect (but solely from moneys available for such purpose) in any manner provided by law, the moneys adjudged or decreed to be payable.

Application of Funds: Senior Bonds

If at any time the moneys in the Senior Bonds Debt Service Fund or the Senior Bonds Sinking Fund shall not be sufficient to pay the principal of or the interest on the Senior Bonds or an Insured Swap Payment as the same become due and payable (either by their terms or by acceleration of maturities under the Indenture), such moneys, together with any moneys then in the Subordinated Bonds Debt Service Fund and Subordinated Bonds Sinking Fund and any other moneys then available or thereafter becoming available for such purpose, whether through the exercise of the remedies provided for in the Indenture or otherwise, shall be applied as follows, subject to the payment of fees and other amounts owing to the Trustee pursuant to the Indenture:

(a) Unless the principal of the Senior Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

FIRST: to the payment to the persons entitled thereto of all installments of interest then due, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Senior Bonds;

SECOND: to the payment to the persons entitled thereto of the unpaid principal of any of the Senior Bonds which shall have become due (other than Senior Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates, with interest on such Senior Bonds from the respective dates upon which they became due, and, if the amount available shall not be sufficient to pay in full the principal of Senior Bonds due on any particular date, together with such interest then to the payment first of such interest, ratably according to the amount of such interest due on such date, and then to the payment of such principal,

ratably according to the amount of such principal due on such date, to the persons entitled thereto without any discrimination or preference; and

THIRD: to the payment of the interest on and the principal of the Senior Bonds, to the purchase and retirement of Senior Bonds and to the redemption of Senior Bonds all in accordance with the provisions of the Indenture.

(b) If the principal of all the Senior Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Senior Bonds with interest thereon as aforesaid without preference or priority of principal or interest over the other, or of any Senior Bond over any other Senior Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Senior Bonds.

(c) If the principal of all of the Senior Bonds shall have been declared due and payable and if such declaration shall thereafter have been rescinded and annulled as described above, then, subject to the provisions of paragraph (b) above, in the event that the principal of all the Senior Bonds shall later become due or be declared due and payable, the moneys then remaining in and thereafter accruing to the Senior Bonds Debt Service Fund and the Senior Bonds Sinking Fund shall be applied in accordance with the provisions of paragraph (a) above.

Application of Funds: Subordinated Bonds

If at any time the moneys in the Subordinated Bonds Debt Service Fund or the Subordinated Bonds Sinking Fund shall not be sufficient to pay the principal of or the interest on the Subordinated Bonds as the same become due and payable (either by their terms or by acceleration of maturities under the Indenture), such moneys, together with any moneys then in the Subordinated Bonds Debt Service Fund and any other moneys then available or thereafter becoming available for such purpose, whether through the exercise of the remedies provided for in the Indenture or otherwise, shall be applied as follows, subject to the payment of fees and other amounts owing, to the Trustee pursuant to the Indenture:

(a) Unless the principal of all the Subordinated Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied, subject to the application of funds for the Senior Bonds described above:

FIRST: to the payment to the persons entitled thereto of all installments of interest then due, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Subordinated Bonds;

SECOND: to the payment to the persons entitled thereto of the unpaid principal of any of the Subordinated Bonds which shall have become due (other than Subordinated

Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates, with interest upon such Subordinated Bonds from the respective dates upon which they became due, and, if the amount available shall not be sufficient to pay in full the principal of Subordinated Bonds due on any particular date, together with such interest, then to the payment first of such interest, ratably according to the amount of such interest due on such date, and then to the payment of such principal, ratably according to the amount of such principal due on such date, to the persons entitled thereto without any discrimination or preference; and

THIRD: to the payment of the interest on and the principal of the Subordinated Bonds, to the purchase and retirement of Subordinated Bonds and to the redemption of Subordinated Bonds, all in accordance with the provisions of the Indenture.

(b) If the principal of all the Subordinated Bonds shall have become or shall have been declared due and payable all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Subordinated Bonds, with interest thereon as aforesaid, without preference or priority of principal over interest or of interest over principal or of any installment of interest over any other installment of interest or of any Subordinated Bond over any other Subordinated Bond ratably according to the amounts due respectively for principal and interest to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Subordinated Bonds.

(c) If the principal of all the Subordinated Bonds shall have been declared due and payable and if such declaration shall thereafter have been rescinded and annulled as described above, then, subject to the provisions of paragraph (b) above, in the event that the principal of all the Subordinated Bonds shall later become due or be declared due and payable, the moneys then remaining in and thereafter accruing to the Subordinated Bonds Debt Service Fund and the Subordinated Bonds Sinking Fund and the Subordinated Bonds Debt Service Reserve Fund shall be applied in accordance with the provisions of paragraph (a) above.

Holder's Right to Direct Proceedings

Subject to rights of any Bond Insurer as set forth in the Indenture, anything in the Indenture to the contrary notwithstanding, the holders of a majority in principal amount of the Bonds then outstanding with respect to which the event of default has occurred shall have the right, subject to the provisions of the Indenture noted above, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to any holder of a Bond not a party to such direction. The Trustee may exercise any right to take any other action deemed proper by the Trustee which is not inconsistent with such direction.

No holder of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Indenture or for any other

remedy thereunder unless such holder previously shall have given to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also the holders of not less than twenty-five (25%) in principal amount of the Bonds then outstanding with respect to which the event of default has occurred shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers hereinabove granted or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are declared in the Indenture in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Indenture or for any other remedy hereunder. It is understood and intended that no one or more holders of the Bonds hereby secured shall have any right in any manner whatever by this or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit of all holders of such outstanding Bonds.

Notice of Default

The Trustee shall mail to the registered owners of the Bonds then outstanding at their addresses as they appear on the registration books, written notice of the occurrence of any event of default set forth in clause (a) above under “Events of Default” within thirty (30) days after any such event of default shall have occurred. The Trustee shall not, however, be subject to any liability to any holder of a Bond by reason of its failure to mail any notice of default required by the Indenture.

Supplemental Indentures Without Consent of Holders

The Commission and the Trustee may, from time to time and at any time, enter into such indentures or agreements supplemental to the Indenture as shall not be inconsistent with the terms and provisions of the Indenture for any of the following purposes: (a) to cure any ambiguity or formal defect or omission in the Indenture or in any Supplemental Indenture, including without limitation defects which would, if not cured, cause the interest on any series of Bonds to be included in gross income for federal income tax purposes when such interest is not to be so includable; (b) grant to or confer upon the Trustee for the benefit of the holders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the holders or the Trustee; (c) to issue Additional Bonds pursuant to the Indenture; (d) to obtain, maintain or upgrade the then current rating of the Bonds or to obtain a Credit Facility; provided, however, no amendment with respect to obtaining a Credit Facility shall grant to the provider of the Credit Facility a lien with respect to the Trust Estate superior to that of any holder; (e) to create a common Subordinated Bonds Debt Service Reserve Fund for all Subordinated Bonds, provided that each entity which has issued a letter of credit, surety bond or bond insurance policy as to any Subordinated Bonds for all or a portion of the Subordinated

Bonds Debt Service Reserve Fund shall have consented thereto, or (f) to make any other amendment which does not materially adversely affect the rights of the Trustee or of the holders.

Supplemental Indentures with Consent of Holders

Subject to the terms and provisions contained in the Indenture, including the rights of any Bond Insurer, and not otherwise, the holders of not less than a majority (more than fifty percent (50%)) in aggregate principal amount of the Senior Bonds then outstanding and the holders of not less than a majority in aggregate principal amount of the Subordinated Bonds then outstanding shall have the right, from time to time, anything contained in the Indenture to the contrary notwithstanding, to consent to and approve the execution by the Commission and the Trustee of such indenture or indentures supplemental to the Indenture as shall be deemed necessary or desirable by the Commission for the purpose of modifying, altering, amending, adding to or rescinding, in any particular manner, any of the terms or provisions contained in the Indenture or in any Supplemental Indenture; provided, however, that nothing in the Indenture contained shall permit, or be construed as permitting, (a) an extension of the maturity of the principal of or the interest on any Bond issued thereunder, or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of revenues ranking prior to or (except as to Additional Bonds to the extent provided in the Indenture) on a parity with the lien or pledge created by the Indenture, or (d) a preference or priority of any Senior Bond or Senior Bonds over any other Senior Bond or Bonds or any Subordinated Bond or Bonds over any other Subordinated Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Indenture. Nothing contained in the Indenture, however, shall be construed as making necessary the approval by holders of the execution of any Supplemental Indenture or agreement described above under “Supplemental Indentures Without Consent of Holders.”

Defeasance

If, when the Bonds shall have become due and payable in accordance with their terms or otherwise as provided in the Indenture or shall have been duly called for redemption or irrevocable instructions to call the Bonds for redemption shall have been given by the Commission to the Trustee, the whole amount of the principal and interest and the premium, if any, so due and payable upon all of the Bonds then outstanding shall be paid or there shall have been deposited with the Trustee or the Paying Agent an amount, evidenced by moneys or Defeasance Securities, certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and to bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom (likewise to be held in trust and committed, except as hereinafter provided), to be sufficient for the payment, at their maturities or redemption dates, of all principal, premium, if any, and interest on the Bonds to the date of maturity or redemption, as the case may be, and provision shall also be made for paying all other sums payable under the Indenture hereunder by the Commission, then and in that case the right, title and interest of the Trustee shall thereupon cease, determine and become void, and the Trustee in such case, on demand of the Commission, and upon receipt of an Opinion of Counsel stating in substance that all conditions precedent provided for in the Indenture relating to defeasance have been satisfied, shall release the

Indenture and shall execute such documents to evidence such release as may be reasonably required by the Commission, and shall turn over to the Commission or to such officer, board or body as may then be entitled by law to receive the same any surplus in any funds or accounts other than moneys held in the Rebate Fund or for redemption or payment of Bonds.

The Indenture provides that in the event that the principal and/or interest due on Bonds shall be paid by any Bond Insurer pursuant to a Bond Insurance Policy, such Bonds shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Commission, and the assignment and pledge of the Trust Estate and all covenants agreements and other obligations of the Commission to the registered owners of such Bonds shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of such registered owners.

If the Commission deposits with the Trustee Defeasance Securities sufficient to pay the principal or redemption price of any particular Bond or Bonds becoming due, either at maturity or by call for redemption or otherwise, together with all interest accruing thereon to the due date, interest on such Bond or Bonds shall cease to accrue on the due date and all liability of the Commission with respect to such Bond or Bonds shall cease. Thereafter, such Bond or Bonds shall be deemed not to be outstanding under the Indenture and the holder or holders of such Bond or Bonds shall be restricted exclusively to the funds so deposited for any claim of whatsoever nature with respect to such Bond or Bonds, and the Trustee shall hold such funds in trust for such holder or holders.

Subordination

The Subordinated Bonds shall be subordinate and junior in lien position and right of payment to the extent and in the manner hereinafter set forth, to all principal of, premium, if any, and interest on the Senior Bonds.

(a) No payment on account of principal of and premium, if any, or interest on such Subordinated Bonds shall be made from the Tax Revenues or any amounts in the Subordinated Bonds Debt Service Fund or Subordinated Bonds Sinking Fund, nor shall any Tax Revenues be applied to the purchase or other acquisition or retirement of such Subordinated Bonds, unless full payment of amounts due and payable on or prior to such payment date, whether at maturity, by acceleration or otherwise, for principal of and premium, if any, and interest on all Senior Bonds has been made or duly provided for in accordance with the terms of the Indenture. Notwithstanding the foregoing, no payment on account of principal of and premium, if any, or interest on such Subordinated Bonds shall be made from the Tax Revenues, nor shall any Tax Revenues be applied to the purchase or other acquisition or retirement of such Subordinated Bonds if at the time of such payment or application or immediately after giving effect thereto, there shall exist a default in the payment of principal of, and premium, if any, or interest on any Senior Bonds.

(b) Upon any dissolution or winding up or total or partial liquidation, reorganization or arrangement of the Commission, whether voluntary or involuntary or in bankruptcy, insolvency, receivership or other proceedings, all principal of, premium, if any, and

interest due or to become due upon all Senior Bonds shall first be paid in full, or payment thereof provided for in accordance with the terms of the Senior Bonds, and any deficiency in any fund created under the Indenture has been satisfied, before any payment from the Tax Revenues is made on account of the Subordinated Bonds. In the event that, notwithstanding the foregoing provisions, any holder of Subordinated Bonds shall have received any payment or distribution of Tax Revenues or any amounts in the Subordinated Bonds Debt Service Fund or the Subordinated Bonds Sinking Funds, including any such payment or distribution which may be payable or deliverable by reason of the payment of the Subordinated Bonds (a “Distribution”), if there exists a default in the payment of principal of, premium, if any, or interest on any Senior Bonds at the time of the Distribution then and in such event such Distribution shall be received and held in trust for the holders of the Senior Bonds and shall be paid over or delivered forthwith to the Trustee for the benefit of the holders of the Senior Bonds to the extent necessary to pay all such Senior Bonds in full after giving effect to any payment or distribution made to the holders of such Senior Bonds concurrently with the Distribution made to such holder of Subordinated Bonds.

(c) The provisions of (a) and (b) above are solely for the purpose of defining the relative rights of the Senior Bonds and the holders of Subordinated Bonds, and nothing herein shall impair, as between the Commission and the holders of the Subordinated Bonds the obligation of the Commission which is unconditional and absolute subject to the provisions of the Indenture to pay to the holders thereof the principal thereof and premium if any and interest thereon in accordance with its terms, nor shall anything therein prevent the holders of the Subordinated Bonds from exercising all remedies otherwise permitted by applicable law or upon default thereunder subject to the rights under (a) and (b) above of the Senior Bonds, as the case may be, to receive cash, property or securities otherwise payable or deliverable to the holders of the Subordinated Bonds.

Rights of the Bond Insurer

The Fifth Supplemental Indenture contain 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 certain actions, acceleration rights, impose requirements for Permitted Investments, valuation, trustee related provisions, defeasance, the right to control certain remedies granted to the Owners of the 2009A Bonds or the Trustee for the benefit of such Owner, and recognition as a third-party beneficiary thereunder. For the purposes of exercising certain voting rights under the Indenture, Assured Guaranty Corp. shall be deemed the Owner of the 2009A Bonds.

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APPENDIX D

FORM OF OPINION OF CO-BOND COUNSEL

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The proposed form of the legal opinions of Co-Bond Counsel is set forth below. The actual opinions will be delivered on the date of delivery of the bonds referred to therein and may vary from the form to reflect circumstances both factual and legal at the time of delivery.

_____, 2018

Pennsylvania Turnpike Commission
Middletown, PA

Re: Pennsylvania Turnpike Commission
\$ _____ Oil Franchise Tax Senior Revenue Bonds, Series A of 2018
\$ _____ Oil Franchise Tax Subordinated Revenue Bonds, Series B of 2018

Ladies and Gentlemen:

We have acted as Co-Bond Counsel in connection with the issuance and sale by the Pennsylvania Turnpike Commission (the "Commission") of \$ _____ Oil Franchise Tax Senior Revenue Bonds, Series A of 2018 (the "2018A Bonds") and its \$ _____ Oil Franchise Tax Subordinated Revenue Bonds, Series B of 2018 (the "2018B Bonds") and together with the 2018A Bonds, the "2018 Bonds"). The 2018 Bonds are issued under and pursuant to and authorized by an Act of the General Assembly of Pennsylvania approved July 18, 2007, P. L. 169, No. 44 ("Act 44"), as amended and supplemented by an Act of the General Assembly approved November 25, 2013, P.L. 974, No. 89, 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 to the extent not repealed by Act 44, and the Act of November 25, 2013, P.L. 974, No. 89 (all such acts are referred to hereinafter collectively as the "Enabling Acts"), pursuant to the Resolution adopted by the Commission on March 20, 2018 and pursuant to the Trust Indenture dated as of August 1, 1998, between the Commission and The Bank of New York Mellon Trust Company, N.A., as successor trustee, as amended and supplemented prior to the date hereof (the "Original Indenture"), and as further supplemented by the Eighth Supplemental Trust Indenture dated as of June 1, 2018 (the "Eighth Supplemental Indenture," and together with the Original Indenture, the "Indenture"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Indenture.

The 2018 Bonds are secured by a pledge of the "oil company franchise tax for highway maintenance and construction" pursuant to 75 Pa. C.S.A. Chap. 95 (the "OFT Act") which is allocated to the Commission pursuant to 75 Pa. C.S.A. §9511(h) (the "Commission Allocation").

In the course of the performance of our duties as Co-Bond Counsel, we have examined such documents, opinions, records, orders, notices, certificates, statutes, resolutions, decisions, and rulings as we have deemed necessary to enable us to furnish this opinion, including, *inter alia*, the following: (i) the Eighth Supplemental Indenture, (ii) the forms of the 2018 Bonds, (iii)

a copy, certified or otherwise identified to our satisfaction, of the Original Indenture, (iv) an executed counterpart of the Tax Regulatory Agreement and Non-Arbitrage Certificate dated as of the date hereof (the "Tax Regulatory Agreement"), on which we have relied, (v) the opinion of Doreen A. McCall, Esquire, Chief Counsel to the Commission, on which we have relied, and (vi) the Enabling Acts, the OFT Act and such constitutional and other 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 the matters set forth herein.

In rendering the opinions set forth below, 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 such opinions, we have, when relevant facts were not independently established, relied upon the aforesaid instruments, certificates, and documents and the representations and warranties made therein without undertaking to verify the same by independent investigation. We have also assumed (except with respect to the Commission) that the documents referred to herein have been duly authorized by all parties thereto and are, where appropriate, legally binding obligations of, and enforceable in accordance with their terms against all parties, and that the actions required to be taken and consent required to be obtained by such parties, have or will be taken or obtained. We do not render any opinion with respect to the adequacy of security for the 2018 Bonds or the sources of payment in respect of the 2018 Bonds.

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

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

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

3. The 2018 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 the Commission in accordance with their terms, payable from the sources provided therefor in the Indenture.

4. The Indenture creates the valid pledge of and security interest in the Trust Estate (as defined therein) as it purports to create.

5. Pursuant to the OFT Act, the Commission Allocation has been appropriated by the Commonwealth and the payment of the Commission Allocation to the Commission by the Commonwealth does not require any further legislative appropriation or legislative approval.

6. The 2018 Bonds are exempt from personal property taxes in Pennsylvania and interest on the 2018 Bonds is exempt from Pennsylvania personal income tax and corporate net income tax.

7. Interest on and accruals of original issue discount with respect to the 2018 Bonds (a) are excluded from gross income for federal income tax purposes and (b) are not items of tax preference within the meaning of Section 57 of the Code for purposes of the alternative minimum tax imposed by Section 55 of the Code on individuals. The corporate alternative minimum tax was repealed by legislation enacted on December 22, 2017 (known as the “Tax Cuts and Jobs Act”), effective for tax years beginning after December 31, 2017. For tax years beginning on or before December 31, 2017, interest on the 2018 Bonds is not an item of tax preference for purposes of the corporate alternate minimum tax in effect prior to enactment of the Tax Cuts and Jobs Act; however, interest on 2018 Bonds held by a corporation (other than an S Corporation, regulated investment company, or real estate investment trust) indirectly may be subject to federal alternative minimum tax because of its inclusion in the adjusted current earnings of a corporate holder. The opinion set forth in clause (a) in the first sentence of this paragraph is subject to the condition that the Commission comply with all the requirements of the Code that must be satisfied subsequent to the issuance of the 2018 Bonds in order that interest on and accruals of original issue discount with respect to the 2018 Bonds be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on and accruals of original issue discount with respect to the 2018 Bonds to be included in gross income retroactively to the date of issuance of the 2018 Bonds. The Commission has covenanted to comply with all such requirements.

We express no opinion regarding any other federal, state or local tax consequences arising with respect to the 2018 Bonds.

In rendering this opinion, we have assumed compliance by the Commission with the covenants contained in the 2018 Bonds, the representations contained in the Original Indenture and Eighth Supplemental Indenture and the representations of the Commission 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 in respect of the 2018 Bonds after the issuance thereof to the extent necessary to effect or maintain the federal tax-exempt status of the interest on the 2018 Bonds. These covenants and representations relate to, inter alia, the use of proceeds of the 2018 Bonds and the rebating to the United States Treasury of specified arbitrage earnings, if required. The opinions set forth above as to the enforceability of the 2018 Bonds and Eighth Supplemental Indenture are subject to applicable bankruptcy, reorganization, moratorium, insolvency or other laws affecting creditors’ rights or remedies generally (including, without limitation, laws relating to fraudulent conveyances or transfers) and are subject to general principles of equity and the exercise of judicial discretion in appropriate cases (regardless of whether such enforceability is considered in a proceeding in equity or at law).

The opinions set forth above are rendered on the basis of, and limited to, federal law and the laws of the Commonwealth of Pennsylvania as enacted and construed on the date hereof. We express no opinion herein as to any matter not set forth in the numbered paragraphs above. In

particular, we assume no responsibility for, and express no opinion herein with respect to, the accuracy, adequacy or completeness of the Preliminary Official Statement or the Official Statement prepared in respect of the 2018 Bonds, including the appendices thereto, and we make no representation that we have independently verified any such information.

We call to your attention that the 2018 Bonds are not in any way a debt or liability of the Commonwealth of Pennsylvania or any instrumentality, agency or political subdivision thereof other than the Commission, nor do the 2018 Bonds or the Indenture pledge the general credit or taxing power of the Commonwealth of Pennsylvania or any instrumentality, agency or political subdivision thereof. The Commission has no taxing power.

The opinions set forth above are given solely for your benefit and may not be relied on by any other person or entity without our express prior written consent. The opinions set forth above 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 including, but not limited to, those that may affect the tax status of interest on the 2018 Bonds.

Very truly yours,

