PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania

Basic Financial Statements
Fiscal Years Ended May 31, 2021 and 2020
With Independent Auditor's Report

MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

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INDEPENDENT AUDITOR'S REPORT

The Commissioners
Pennsylvania Turnpike Commission

Report on the Financial Statements

We have audited the financial statements of the business-type activities and fiduciary activities of the Pennsylvania Turnpike Commission (the Commission), a component unit of the Commonwealth of Pennsylvania, as of and for the years ended May 31, 2021 and 2020, 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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.

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

Opinions

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the Commission as of May 31, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of Accounting Pronouncements

As discussed in Note 2 to the basic financial statements, as of June 1, 2019, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Our opinions are not modified with respect to this matter.

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. As explained in Note 15, on July 28, 2021, the Commission made its final $450 million payment to PennDOT, as mandated by Act 44 and Act 89. However, the Commission's ability to repay its bonded debt payments, as well as its continuing $50 million annual Act 44 and Act 89 payment from fiscal year 2023 through fiscal year 2057, is dependent on its continuing capability to raise tolls. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Commission's Proportionate Share of Net Pension Liability – Pennsylvania State Employees' Retirement System – Pension Fund, the Schedule of Commission's Contributions – Pennsylvania State Employees' Retirement System – Pension Fund, the Schedule of Changes in the Commission's Net OPEB Liability and Related Ratios, and the Schedule of Commission Contributions to the Other Postemployment Welfare Plan Program on pages 4 through 22 and pages 109 through 114 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The Section Information on pages 115 through 128 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Mitchell & Titus, LLP

October 5, 2021

The management of the Pennsylvania Turnpike Commission (hereinafter referred to as the Commission) offers this narrative overview and analysis of the Commission's business-type (enterprise fund) and fiduciary (fiduciary fund) activities for the years ended May 31, 2021 and 2020, which should be read in conjunction with the Commission's financial statements.

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 enterprise and fiduciary fund financial statements (the financial statements). While the Commission is considered a component unit of the Commonwealth of Pennsylvania (Commonwealth), it is also an enterprise fund. Therefore, the Commission's financial statements are presented in a manner similar to a private-sector business and have been prepared according to accounting principles generally accepted in the United States 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 Pennsylvania Turnpike Commission (the Employer) maintains an other postemployment welfare plan program (the Plan) for the purpose of providing non-pension other postemployment benefits (OPEB) for employees who meet the age and service requirements outlined in the Employer's plan documents. In accordance with GASB Statement No. 84, *Fiduciary Activities*, the Plan is a fiduciary component unit of the Commission.

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 and capital contributions. Changes in net position (increases or decreases) reflect current year activities and the impact on 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.

The Statements of Fiduciary Net Position present information on all of the Plan's assets, liabilities and fiduciary net position. Over time, increases or decreases in fiduciary net position serve as a relative indicator of the change in the financial position of the Plan.

The Statements of Changes in Fiduciary Net Position present information about the Plan's additions to, deductions from, and net increase (or decrease) in fiduciary net position. Changes in fiduciary net position (increases or decreases) reflect the current fiscal year's impact upon the overall financial position of the Plan.

Financial Analysis

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

Comparative Condensed Statements of Net Position

	May 31		
	2021	**2020**	**2019**
		(In Thousands)	
Assets and deferred outflows of resources			
Current assets	$ 1,460,205	$ 1,437,182	$ 1,729,355
Noncurrent investments	1,255,843	1,219,940	995,525
Capital assets, net of accumulated depreciation	6,676,046	6,410,001	6,139,998
Other assets	32,620	32,521	33,823
Total assets	9,424,714	9,099,644	8,898,701
Total deferred outflows of resources	545,956	626,429	621,105
Total assets and deferred outflows of resources	9,970,670	9,726,073	9,519,806
Liabilities and deferred inflows of resources			
Current liabilities	1,135,109	1,181,489	1,367,934
Debt, net of unamortized premium	15,323,360	14,383,020	13,591,404
Net pension/OPEB liability	303,263	331,034	398,755
Other noncurrent liabilities	278,928	355,661	250,097
Total liabilities	17,040,660	16,251,204	15,608,190
Total deferred inflows of resources	204,978	166,017	153,857
Total liabilities and deferred inflows of resources	17,245,638	16,417,221	15,762,047
Net position			
Net investment in capital assets	(1,115,845)	(903,089)	(623,209)
Restricted for construction purposes	276,847	411,313	331,065
Restricted for debt service	45,913	42,619	51,536
Unrestricted	(6,481,883)	(6,241,991)	(6,001,633)
Total net position	$ (7,274,968)	$ (6,691,148)	$ (6,242,241)

The Commission's total net position decreased $583.8 million and $448.9 million for the fiscal years ended May 31, 2021 and 2020, respectively. The large decreases in net position in both fiscal years were mostly 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.

Financial Analysis *(continued)*

Comparative Condensed Statements of Net Position *(continued)*

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

The Commission's total assets and deferred outflows of resources increased by $244.6 million in fiscal year 2021. This 2021 increase is mostly related to increases in capital assets of $266.0 million and accounts receivable of $67.5 million. This increase is offset by a decrease in deferred outflow of resources of $80.5 million. The increase in capital assets is mostly related to capital asset additions of $651.4 million, offset by $373.9 million of depreciation expense. The increase in accounts receivable is mostly related to the implementation of All-Electronic Tolling (AET) and the increased use of the Toll By Plate (TBP) invoicing process (See Note 2). The decrease in deferred outflows of resources is mostly related to a decrease in deferred outflows of resources from hedging derivatives which is the result of the cumulative change in the fair values. For additional information, see Note 5, Capital Assets, and Note 9, Commitments & Contingencies.

The Commission's total assets and deferred outflows of resources increased by $206.3 million in fiscal year 2020. This 2020 increase is mostly related to an increase in capital assets of $270.0 million. This increase is offset by a decrease in cash and investments of $64.2 million. The increase in capital assets is mostly related to capital asset additions of $652.6 million, offset by $382.1 million of depreciation expense. The decrease in cash and investments is the result of a drop in revenues in the fourth quarter due to the COVID-19 pandemic plus cash defeasances of certain subordinate bonds in May 2020. For additional information, see Note 4, Cash and Investments, and Note 7, Debt.

Total liabilities and deferred inflows of resources increased by $828.4 million in fiscal year 2021 and by $655.2 million in fiscal year 2020. The increases for both fiscal year 2021 and fiscal year 2020 were mainly related to the issuance of senior debt and subordinate debt. See Note 7, Debt, for additional information regarding the new issuances of 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.

Financial Analysis *(continued)*

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

	Year ended May 31		
	2021	2020	2019
		(In Thousands)	
Operating			
Operating revenue	$ 1,231,549	$ 1,283,783	$ 1,336,605
Cost of services	(509,381)	(533,931)	(509,753)
Depreciation	(373,924)	(382,088)	(384,104)
Operating income	348,244	367,764	442,748
Nonoperating revenue (expenses)			
Investment earnings	15,336	90,345	83,072
Other nonoperating revenue	12,996	22,693	22,572
Act 44 payments to PennDOT	(450,000)	(450,000)	(450,000)
Capital assets transferred to Commonwealth	(2,769)	(294)	(162,982)
Interest and bond expense	(671,774)	(652,901)	(620,584)
Nonoperating expenses, net	(1,096,211)	(990,157)	(1,127,922)
Loss before capital contributions	(747,967)	(622,393)	(685,174)
Capital contributions	164,147	173,486	229,386
Decrease in net position	(583,820)	(448,907)	(455,788)
Net position at beginning of year, before restatement	(6,691,148)	(6,242,241)	(5,638,762)
Cumulative effect of change in accounting principle	-	-	(147,691)
Net position at beginning of year, as restated	(6,691,148)	(6,242,241)	(5,786,453)
Net position at end of year	$ (7,274,968)	$ (6,691,148)	$ (6,242,241)

For the fiscal years ended May 31, 2021 and 2020, operating and nonoperating revenues totaled $1,259.9 million and $1,396.8 million, respectively, while operating and nonoperating expenses totaled $2,007.8 million and $2,019.2 million, respectively.

Total operating and nonoperating revenues for fiscal year 2021 were $136.9 million, or 9.8% lower than fiscal year 2020. The decrease in nonoperating revenue is due primarily to a $75.0 million decrease in investment earnings, which is the result of unrealized losses on investments due to increasing interest rates and decreasing values for fixed-income investments in fiscal year 2021. The decrease in operating revenue was the result of the substantial decrease in traffic due to the COVID-19 pandemic, which was partially offset with the January 2021 toll increase of 6.0% (which was originally planned for 5.0%) for all E-ZPass rates and most Toll By Plate locations, as well as the full-year impact of the January 2020 toll increase of 6.0% for cash, E-ZPass and Toll By Plate customers.

Financial Analysis *(continued)*

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

Total operating and nonoperating revenues for fiscal year 2020 were $45.5 million, or 3.2% lower than fiscal year 2019. This decrease in revenue was the result of the substantial decrease in traffic due to the COVID-19 pandemic. Vehicle transactions during the fourth quarter of fiscal year 2020 decreased by more than 45.0% compared to the same period of the prior year. The decrease in revenue from this traffic decline was partially offset with the January 2020 toll increase of 6.0% for cash, E-ZPass and Toll By Plate customers, as well as the full year impact of the January 2019 toll increase of 6.0% for cash, E-ZPass and Toll By Plate customers.

Total operating and nonoperating expenses for fiscal year 2021 were $11.4 million lower than fiscal year 2020. This is due to a $24.6 million decrease in cost of services and a $8.2 million decrease in depreciation offset with an $18.9 million increase in interest and bond expenses and $2.5 increase in capital assets transferred to the Commonwealth.

Total operating and nonoperating expenses for fiscal year 2020 were $108.2 million lower than fiscal year 2019, primarily due to a decrease in capital assets transferred to the Commonwealth of $162.7 million.

Capital contributions decreased by $9.3 million in fiscal year 2021 primarily due to a $9.6 million reduction in Oil Company Franchise Tax revenues. Capital contributions decreased by $55.9 million in fiscal year 2020, primarily due to a $47.9 million decrease in Federal reimbursements and an $8.0 million reduction in Oil Company Franchise Tax revenues (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 as of May 31, 2021 amounted to $13.4 billion of gross asset value with accumulated depreciation of $6.7 billion, leaving a net book value of $6.7 billion. The net book value of capital assets as of May 31, 2020 was $6.4 billion. Capital assets represented 67.0% and 65.9% of the Commission's total assets and deferred outflows of resources as of May 31, 2021 and 2020, respectively.

Financial Analysis *(continued)*

Capital Assets and Debt Administration *(continued)*

Capital Assets (continued)

Assets under construction at the end of fiscal year 2021 were $2,288.3 million, which was $499.6 million more than in fiscal year 2020. Assets under construction at the end of fiscal year 2020 were $1,788.7 million, which was $298.5 million more than in fiscal year 2019. In fiscal year 2021, $122.0 million of constructed capital assets were completed, which was $200.3 million less than the $322.3 million of constructed capital assets completed in fiscal year 2020. In addition to constructed capital assets, the Commission had capital asset additions of approximately $29.8 million and $31.7 million in fiscal years 2021 and 2020, respectively. In fiscal years 2021 and 2020, these additions related to purchases and capital contributions.

A high priority 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 150 miles of total reconstruction have been completed. Currently, approximately ten miles are in construction and approximately 88 miles are in design. Also, the Commission completed one mile of brand-new roadway and 51 miles of roadway resurfacing during fiscal year 2021, helping to maintain a quality-riding surface with a Turnpike System-wide median IRI (International Roughness Index) of 68, which is rated as good. The Commission also completed additional cashless tolling conversions at two different locations on the system and two slope repair projects.

The Commission constructed five new bridges, completely replaced two aging original bridges with new bridges, redecked or rehabilitated another 28 bridges, constructed one new retaining wall and eliminated one bridge. Of the Commission's bridges, 865 bridges that are inspected biennially, 3.1% are rated structurally deficient which is below the national average of 7.5%. All 26 bridges currently rated structurally deficient are either in construction or design for rehabilitation.

Facility projects continue to focus on environmental and safety compliance, and on the maintenance and repair of existing buildings including HVAC, electrical and plumbing systems based on deficiencies identified during facility condition assessments. The construction of the new Southern Beltway Maintenance Facility, the District Trades building and the Greensburg Maintenance Microgrid was completed. The new Eastern Training Facility and Devault Maintenance Facility are both in construction. Design has started on the new Bowmansville, Harrison City and New Cumberland Maintenance Facilities. Design for a new Trades Building and Pennsylvania State Police Barracks in District 3 has also begun.

Electric vehicle (EV) charging stations have been installed at North Somerset, South Somerset, Bowmansville, Peter J. Camiel and Hickory Run Northbound and Southbound service plazas.

Financial Analysis *(continued)*

Capital Assets and Debt Administration *(continued)*

Capital Assets (continued)

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. The current estimates to complete the final 14 miles of the Mon/Fayette Expressway to Interstate Route 376 are in excess of $2.0 billion. Limited funding provided through Act 89 will be used to advance this project.

The Southern Beltway is a series of three independent projects that extend from the Mon/Fayette Expressway near Finleyville to Interstate 376 (I-376) 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 I-376 to U.S. Route 22 (U.S. 22), is in operation. The project from U.S. 22 to Interstate 79 (I-79) is nearing the completion of construction with expected opening in October 2021. The project from I-79 to Mon/Fayette Expressway is currently in the final design phase.

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

The Commission completed the first of three phases of its Pennsylvania Turnpike/I-95 Interchange Project in September 2018. 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 included 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 included construction of a new mainline toll plaza and a cashless tolling plaza westbound, which opened in January 2016. This first phase of the Interchange Project was completed and open to traffic in September 2018. The portion of the Turnpike Mainline from the Interchange Project eastward to the Delaware River Bridge in Bucks County has been 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 the initial design costs of the subsequent phases is included in the Fiscal Year 2022 Capital Plan.

The above paragraphs describe the changes in capital assets occurring during the fiscal years ended May 31, 2021 and 2020. Please refer to the capital assets section in the notes to the financial statements (Note 5) for schedules summarizing changes in capital assets.

Financial Analysis *(continued)*

Capital Assets and Debt Administration *(continued)*

Debt Administration – Mainline

In June 2019, the Commission issued $139,815,000 of 2019 Second Series Senior Revenue Bonds at a variable rate with a maturity date of December 1, 2038. The 2019 Second Series Senior Revenue Bonds were issued to refund a portion of the 2013 Series B Senior Revenue Bonds ($100,000,000), 2014 Series B-1 Senior Revenue Bonds ($39,150,000), and for paying the costs of issuing the 2019 Second Series Senior Revenue Bonds.

In June 2019, the Commission issued $722,970,000 of 2019 Series A Subordinate Revenue Bonds at a fixed rate with a maturity date of December 1, 2049. The 2019 Series A Subordinate Revenue Bonds were issued primarily to finance a portion of the cost of making payments to PennDOT in accordance with Act 44 and Act 89 and for paying the costs of issuing the 2019 Series A Subordinate Revenue Bonds.

In August 2019, the Commission issued $341,325,000 of 2019 Series A Senior Revenue Bonds at a fixed rate with a maturity date of December 1, 2049. The 2019 Series A Senior Revenue Bonds were issued to finance the cost of various capital expenditures set forth in the Commission's Ten-Year Capital Plan, including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and/or rehabilitation of certain interchanges and for paying the costs of issuing the 2019 Series A Senior Revenue Bonds.

In September 2019, the Commission issued $179,815,000 of the 2019 Forward Delivery Series Senior Revenue Bonds at a fixed rate with a maturity date of December 1, 2025. The 2019 Forward Delivery Series Senior Revenue Bonds were issued primarily for the current refunding of the 2009 Series B Senior Revenue Bonds ($190,080,000) and for paying the costs of issuing the 2019 Forward Delivery Series Senior Revenue Bonds.

In November 2019, the Commission issued, as a Direct Borrowing, $52,000,000 2019 EB-5 Loan (Third Tranche) at a fixed rate with a maturity date of November 5, 2024. 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 and for paying the costs of issuing the 2019 EB-5 Loan.

In November 2019, the Commission issued $86,730,000 of 2019 First Series Subordinate Revenue Refunding Bonds (Federally Taxable) at a fixed rate with a maturity date of December 1, 2042. The 2019 First Series Subordinate Revenue Refunding Bonds were issued to provide funds for refunding a portion of the Commission's 2010 Series C-1 Subordinate Revenue Bonds ($1,540,000), 2011 Series B Subordinate Revenue Bonds ($40,130,000), 2012 Series A Subordinate Revenue Bonds ($25,910,000), 2012 Series B Subordinate Revenue Bonds ($12,685,000) and for paying the costs of issuing the 2019 First Series Subordinate Revenue Refunding Bonds.

Financial Analysis *(continued)*

Capital Assets and Debt Administration *(continued)*

Debt Administration – Mainline (continued)

In November 2019, the Commission issued $151,130,000 of 2019 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds (Federally Taxable) at a fixed rate with a maturity date of December 1, 2043. The 2019 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds were issued to provide funds for refunding a portion of the Commission's 2010 Series B-1 Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($13,780,000), 2011 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($23,340,000), 2012 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($28,610,000), 2012 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($35,270,000), and 2013 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($39,765,000) and for paying the costs of issuing the 2019 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds.

In January 2020, the Commission issued, as a Direct Borrowing, $36,500,000 2020 EB-5 Loan (Fourth Tranche) at a fixed rate with a maturity date of January 21, 2025. 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 and for paying the costs of issuing the 2020 EB-5 Loan.

In January 2020, the Commission issued $234,320,000 of 2020 First Series Senior Revenue Bonds (Federally Taxable) at a fixed rate with a maturity date of December 1, 2043. The 2020 First Series Senior Revenue Bonds were issued to refund a portion of the 2012 Series A Senior Revenue Bonds ($99,380,000), 2013 Series C Senior Revenue Bonds ($115,580,000), and for paying the costs of issuing the 2020 First Series Senior Revenue Bonds.

In February 2020, the Commission issued $134,310,000 of 2020 First Series Subordinate Revenue Refunding Bonds (Federally Taxable) at a fixed rate with a maturity date of December 1, 2043. The 2020 First Series Subordinate Revenue Refunding Bonds were issued to provide funds for refunding a portion of the Commission's 2010 Series B-1 Subordinate Revenue Bonds ($11,285,000), 2011 Series B Subordinate Revenue Bonds ($3,820,000), 2012 Series A Subordinate Revenue Bonds ($29,555,000), 2012 Series B Subordinate Revenue Bonds ($29,240,000), 2013 Series A Subordinate Revenue Bonds ($28,555,000), 2013 Series B-1 Subordinate Revenue Bonds ($18,200,000), 2013 Series B-3 Subordinate Revenue Bonds ($10,215,000) and for paying the costs of issuing the 2020 First Series Subordinate Revenue Refunding Bonds.

Financial Analysis *(continued)*

Capital Assets and Debt Administration *(continued)*

Debt Administration – Mainline (continued)

In February of 2020, the Commission issued $92,750,000 of 2020 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds (Federally Taxable) at a fixed rate with a maturity of December 1, 2043. The 2020 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds were issued to provide funds for refunding a portion of the Commission's 2010 Series B-1 Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($8,790,000), 2011 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($25,000), 2012 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($1,805,000), 2012 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($15,230,000), 2013 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($20,330,000), 2013 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($38,080,000) and for paying the costs of issuing the 2020 First Series Motor License Fund-Enhanced Subordinate Revenue Refunding Bonds.

In May 2020, the Commission cash defeased the June 1, 2020 maturity of the Commission's 2008 Series B Subordinate Revenue Bonds ($7,595,000), 2016 First Series Subordinate Revenue Refunding Bonds ($42,020,000), and 2017 Series B-2 Subordinate Revenue Bonds ($210,000).

In June 2020, the Commission issued $225,820,000 of 2020 Series Senior Revenue Bonds at a variable rate with a maturity date of December 1, 2039. The 2020 Series Senior Revenue Bonds were issued to refund a portion of the 2013 Series B Senior Revenue Bonds ($100,000,000), 2014 Series B-1 Senior Revenue Bonds ($100,000,000), 2018 Series A-1 Senior Revenue Bonds ($25,000,000) and for paying the costs of issuing the 2020 Series Senior Revenue Bonds.

In August 2020, the Commission issued $100,500,000 of 2020 Series A Senior Revenue Bonds at a variable rate with a maturity date of December 1, 2050. The 2020 Series A Senior Revenue Bonds were issued primarily to finance the cost of various capital expenditures set forth in the Commission's Ten-Year Capital Plan, including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and/or rehabilitation of certain interchanges and for paying the costs of issuing the 2020 Series A Senior Revenue Bonds.

In October 2020, the Commission issued $241,625,000 of 2020 Series B Senior Revenue Bonds at a fixed rate with a maturity date of December 1, 2050. The 2020 Series B Senior Revenue Bonds were primarily issued to finance the cost of various capital expenditures set forth in the Commission's Ten-Year Capital Plan, including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and/or rehabilitation of certain interchanges and for paying the costs of issuing the 2020 Series B Senior Revenue Bonds.

Financial Analysis *(continued)*

Capital Assets and Debt Administration *(continued)*

Debt Administration – Mainline (continued)

In November 2020, the Commission cash defeased the December 1, 2020 maturity of the Commission's 2011 Series A Senior Revenue Bonds ($15,925,000), 2012 Series A Senior Revenue Bonds ($4,310,000), 2013 Series C Senior Revenue Bonds ($1,500,000), 2014 Series A Senior Revenue Bonds ($455,000), 2014 Series C Senior Revenue Bonds ($2,275,000) , 2015 Series A-1 Senior Revenue Bonds ($490,000), 2015 Series B Senior Revenue Bonds ($1,295,000), 2016 Series A-1 Senior Revenue Bonds ($520,000), 2017 Series A-1 Senior Revenue Bonds ($6,210,000), 2019 Series A Senior Revenue Bonds ($5,405,000), and 2019 Forward Delivery Senior Revenue Bonds ($26,230,000).

In November 2020, the Commission cash defeased the December 1, 2020 maturity of the Commission's 2010 Series C-3 Subordinate Revenue Bonds ($3,045,115 with an accretion value of $4,645,085), 2011 Series B Subordinate Revenue Bonds ($3,735,000), 2012 Series A Subordinate Revenue Bonds ($3,550,000), 2012 Series B Subordinate Revenue Bonds ($3,675,000), 2013 Series A-1 Subordinate Revenue Bonds ($1,445,000), 2013 Series B-1 Subordinate Revenue Bonds ($1,805,000), 2014 Series A-1 Subordinate Revenue Bonds ($2,680,000), 2015 Series B Subordinate Revenue Bonds ($405,000), 2016 Series A-1 Subordinate Revenue Bonds ($380,000), 2016 Third Series Subordinate Revenue Taxable Refunding Bonds ($8,110,000), 2019 First Series Subordinate Revenue Taxable Refunding Bonds ($205,000), and 2020 First Series Subordinate Revenue Taxable Refunding Bonds ($11,845,000).

In January 2021, the Commission issued $465,730,000 of 2021 Series A Subordinate Revenue Bonds at a fixed rate with a maturity date of December 1, 2050. The 2021 Series A Subordinate Revenue Bonds were primarily issued to finance a portion of the costs of making payments to PennDOT in accordance with Act 44 and Act 89 and for paying the costs of issuing the 2021 Series A Subordinate Revenue Bonds.

In March 2021, the Commission made a draw of $150,000,000 on the PNC Bank revolving Line of Credit, as a Direct Borrowing, at a variable rate with a maturity date of June 2, 2021. The draw was utilized to provide funds to repay the 2016 EB-5 Loan 1st-3rd Tranches ($150,000,000).

In April 2021, the Commission issued $250,000,000 of 2021 Series A Senior Revenue Bonds at a fixed rate with a maturity date of December 1, 2051. The 2021 Series A Senior Revenue Bonds were issued primarily to repay outstanding amounts under the Commission's revolving Line of Credit with PNC Bank ($150,000,000), repay the 2016 EB-5 Loan Fourth Tranche ($50,000,000), finance the cost of various capital expenditures set forth in the Commission's Ten-Year Capital Plan, including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and/or rehabilitation of certain interchanges and for paying the costs of issuing the 2021 Series A Senior Revenue Bonds.

Financial Analysis *(continued)*

Capital Assets and Debt Administration *(continued)*

The preceding paragraphs describe debt activity occurring during the fiscal years ended May 31, 2021 and 2020. Please refer to the debt and commitments and contingencies 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 in the following paragraphs, 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 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 the Conversion or having the ability to do so in the future, leaving all legal, financial and operational responsibility for I-80 solely with PennDOT.

Pursuant to Act 44 and the Act 44 Funding Agreement, the Commission is obligated to make scheduled annual payments to PennDOT (*Act 44/Act 89 Payments*). Originally such payments in the amount of $450.0 million were through 2057, payable in equal quarterly installments, with $200.0 million of the scheduled annual payments supporting road and bridge projects and $250.0 million supporting transit projects throughout the Commonwealth. See the following paragraphs for subsequent changes to such annual payments.

On November 25, 2013, Act 89 was enacted to provide (i) substantial revenue enhancements to support investment in the Commonwealth's aging transportation infrastructure, and (ii) substantial reductions in the Commission's obligations with respect to the Act 44/Act 89 Payments. The revenue enhancements providing additional funds each year for investment in the Commonwealth's transportation infrastructure were fully implemented in fiscal year 2018.

Revisions to the Commission's Act 44/Act 89 Payment obligations enacted under Act 89 were implemented by Amendment Number One to Lease and Funding Agreement (the *Act 89 Amendment* and together with the Act 44 Funding Agreement, the *Original Amended Funding Agreement*) executed by the Commission and PennDOT on April 4, 2014.

Events That Will Impact Financial Position *(continued)*

In accordance with Act 89 and the Original Amended Funding Agreement, the Commission's aggregate annual Act 44/Act 89 Payment to PennDOT for fiscal year 2014 through fiscal year 2022 is $450.0 million, with at least $30.0 million of such annual amount required to be paid from current revenues and the remainder expected to be funded by the proceeds of bonds issued under the Subordinate Revenue Indenture.

The Original Amended Funding Agreement was subsequently further amended, on July 31, 2018, by Amendment Number Two to Lease and Funding Agreement (the *Amendment Two)* and on June 11, 2020, by Amendment Number Three to the Lease and Funding Agreement (the *Amendment Three*, and together with the Original Amended Funding Agreement and Amendment Two, the *Amended Funding Agreement*) both of which were executed by all parties to provide current year adjustments for certain due dates for Act 44/Act 89 Payments in fiscal years 2019 through 2021.

As a result of the materially adverse impact of the COVID-19 pandemic, the Commission and PennDOT agreed, pursuant to Amendment Three, to extend the payment dates for the Commission's July 2020 and October 2020 scheduled payments of $112.5 million each, to January 29, 2021. The Commission ultimately paid the full $450.0 million within fiscal year 2021. All regularly scheduled payments for the fiscal year ended May 31, 2020 were made. For both fiscal years, the amounts are recorded as nonoperating expenses.

Act 89 relieves the Commission from over $15.0 billion in future Act 44/Act 89 Payments to PennDOT during fiscal years 2023 through 2057 (the term of the Amended Funding Agreement), by reducing the Commission's aggregate annual Act 44/Act 89 Payments to PennDOT to $50.0 million, which amount shall be paid from then-current revenues of the Commission.

The provisions of Act 44 and the Amended Funding Agreement require the Commission to 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 Amended 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, which are separately financed by certain dedicated tax and fee revenue sources of the Commonwealth.

The Commission delivered to the Secretary of the Budget its Financial Plan for Fiscal Year 2022 on June 1, 2021 (the Fiscal Year 2022 Financial Plan). The Fiscal Year 2022 Financial Plan indicated that in fiscal year 2021, the Commission was able to meet all of its financial covenants and obligations under the Enabling Acts and was able to progress with its then-current Capital Plan.

Events That Will Impact Financial Position *(continued)*

Fiscal Year 2021 Financial Plan

As a result of the impact of the COVID-19 pandemic on the finances and operations of the Commission, the Commission delivered to the Secretary of the Budget its Financial Plan for Fiscal Year 2021 on June 1, 2020 (the Fiscal Year 2021 Financial Plan), and subsequently amended the Fiscal Year 2021 Financial Plan on December 30, 2020 (the Amended Fiscal Year 2021 Financial Plan).

The Fiscal Year 2021 Financial Plan reflected the terms of the Amended Funding Agreement. The Fiscal Year 2021 Financial Plan also assumed the adoption of the Commission's Fiscal Year 2021 Ten-Year Capital Plan which was adopted by the Commission in July 2020. The Fiscal Year 2021 Financial Plan factored then-current adverse effects of COVID-19 pandemic and reflected various cost containment and efficiency measures the Commission implemented to try to mitigate the impact of the COVID-19 pandemic, which included, (i) instituting a hiring freeze for both "non-essential" management and union positions; (ii) reducing capital spending by approximately 15%; (iii) offering an early retirement program to management employees; (iv) cutting operating expenses; (v) implementing a work from home policy where feasible; (vi) transitioning to AET collections; (vii) delaying Act 44/Act 89 Payments until January 29, 2021; and (viii) lowering projected fiscal year 2021 debt service through cash defeasances. Additional measures in the Fiscal Year 2021 Financial Plan included, acceleration of the timing for the planned January 2021 toll increases to October 2020 (which ultimately was not accelerated); an increase of the planned January 2021 toll increase from 5% to 6%; an additional 45% increase for Toll By Plate customers on the ticket system and the Mon-Fayette Expressway; and reducing the annual growth of the Commission's operating budget from the planned 4% annual level to 2% annually for fiscal years 2021-2024. The additional increase for Toll By Plate customers was necessary to mitigate the loss of revenue due to unpaid Toll By Plate transactions.

The Fiscal Year 2021 Financial Plan was based on data contained in the May 2020 Bring Down Letter, and likewise reflected the downward revision to estimated toll revenue and traffic volume versus that which was contained in the April 2019 Bring Down Letter. The Fiscal Year 2021 Financial Plan and the May 2020 Bring Down Letter also assumed a toll increase effective October 2020. The Commission later determined that the planned October 2020 toll increase would instead be effective January 2021. CDM Smith prepared the September 2020 Supplemental Letter to the May 2020 Bring Down Letter addressing the effect of this delay on toll revenue.

As part of the continued efforts to actively respond to the ongoing adverse financial effects of the COVID-19 pandemic and Commission policy determinations, the Commission requested a six-month update from CDM Smith to the May 2020 Bring Down Letter. CDM Smith prepared the December 2020 Bring Down Letter, which included a further downward revision to estimated toll revenue and traffic in fiscal year 2021 and beyond, notably reflecting the impacts of the delay in the previously planned October 2020 toll increase and the early permanent conversion to AET, as implemented on June 2, 2020, which were not contained in the May 2020 Bring Down Letter.

Events That Will Impact Financial Position *(continued)*

Fiscal Year 2021 Financial Plan *(continued)*

The Amended Fiscal Year 2021 Financial Plan reflected the revisions to the 2018 Traffic Study as contained in the December 2020 Bring Down Letter. Minor revisions to the Fiscal Year 2021 operating budget and revisions to the funding of the Ten-Year Capital Plan were also included in the Amended Fiscal Year 2021 Financial Plan.

Fiscal Year 2022 Financial Plan

The Fiscal Year 2022 Financial Plan defines the reasonably expected revenues the Commission will generate necessary to meet required Turnpike operating and maintenance expenses, debt service payments, capital expenses, and liquidity requirements, and includes the adoption of the Commission's Fiscal Year 2022 Ten-Year Capital Plan which was adopted by the Commission in May 2021. The Fiscal Year 2022 Financial Plan indicates that in fiscal year 2021, the Commission was able to meet all of its financial covenants and obligations under the Enabling Acts and was able to progress with its then-current Capital Plan. A copy of the Fiscal Year 2022 Financial Plan is available on the Commission's website.

Like the Fiscal Year 2021 Financial Plan and the Amended Fiscal Year 2021 Financial Plan, the Fiscal Year 2022 Financial Plan continues to factor the current effects of the COVID-19 pandemic, as well as the various cost containment and efficiency measures the Commission has implemented in an attempt to mitigate the impact of the COVID-19 pandemic.

The Fiscal Year 2022 Financial Plan reflects anticipated fiscal year 2022 toll revenues that include the full fiscal year impact of the 6% toll increase implemented in January 2021, the partial fiscal year impact of the anticipated October 2021 implementation of the toll schedule on the Southern Beltway, and the partial fiscal year impact of the anticipated January 2022 toll increase, yielding an average toll rate increase of 5%. In July 2021, the Commissioners approved both the October 2021 toll schedule for the Southern Beltway and the January 2022 toll increases of 5% across the balance of the System. Toll revenues are projected to increase by 16.3% to $1.386 billion in fiscal year 2022, consistent with the Traffic Study. Other revenues, primarily consisting of ETC-related fees, lease and rental fees and concession fees, result in total projected operating revenues of $1.410 billion for fiscal year 2022. The fiscal year 2022 operating budget adopted May 4, 2021, projects fiscal year 2022 operating expenses to be $417 million, which is 2.1% lower than the prior-year budgeted amount of $426 million. The Fiscal Year 2022 Financial Plan projects Senior Revenue Bond debt service coverage for fiscal year 2021 to be 3.41x, and the Subordinate Revenue Bond (as defined herein) and Subordinate Special Revenue Bond (as defined herein) debt service coverage ratios to be 1.63x and 1.48x, respectively.

Events That Will Impact Financial Position *(continued)*

Fiscal Year 2022 Financial Plan *(continued)*

Capital expenditures are budgeted to be $661 million for fiscal year 2022, an increase of $192 million over the budgeted fiscal year 2021 Capital Plan amount. As noted, the Fiscal Year 2022 Capital Plan restores capital investments to a level more consistent with the Commission's $6.52 billion Fiscal Year 2015 Capital Plan and aligns with the projected decrease in Act 44/Act 89 Payments which will increase the Commission's funding capacity. The Fiscal Year 2022 Financial Plan assumes that the Commission will retain a liquidity balance equal to at least 10% of annual budgeted revenues.

To fund its fiscal year 2022 capital expenditures, the Commission expects to utilize $123 million of previously unused bond proceeds, $195 million in pay-as-you-go funding, as well as $343 million in additional Senior Revenue Bond proceeds. Pay-as-you-go funding will be deployed to ensure financial flexibility. Fiscal year 2022 Act 44/Act 89 Payments were paid in full on July 28, 2021. Depending upon market conditions, the Commission may refund additional outstanding debt for savings.

The Fiscal Year 2022 Financial Plan concludes that the Commission will continue to meet all of its indenture covenants and other obligations through the fiscal year 2057. However, as a forward-looking report, the Fiscal Year 2022 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 2022. Key among these assumptions is the Commission's ongoing ability to raise all tolls throughout the System.

The Fiscal Year 2022 Financial Plan assumes the $450.0 million Act 44/Act 89 Payment obligations required by the Enabling Acts through fiscal year 2022 and the reduced level of $50.0 million Act 44/Act 89 Payments 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 Fiscal Year 2022 Financial Plan.

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. See also Note 15 for Subsequent Events. 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 2021-2022 or future legislative sessions or if any other proposals or initiatives may lead to the adoption of legislation that may affect the Commission.

Events That Will Impact Financial Position *(continued)*

Litigation

Owner Operator Independent Drivers Association, Inc. v. Pennsylvania Turnpike Commission

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 Defendants). The litigation was 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 alleged that Act 44, as amended by Act 89 (Act 44/89), violated 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 System and that the Commission expends toll revenues for purposes other than the operation and maintenance of the Turnpike System.

The Lawsuit sought, among other things, the following injunctive remedies: (1) 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 (2) 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 sought certain monetary damages including a refund of a portion of certain tolls allegedly imposed upon the Trucking Plaintiffs' use of the Turnpike System in excess of what was reasonably necessary to pay for the cost of operating and maintaining the Turnpike System, together with any legally applicable interest and other compensation.

The Commission along with all of the other Defendants vigorously defended Act 44/89 and the propriety of the Commission's imposition and use of the Turnpike toll revenues in court.

On April 4, 2019, Judge Yvette Kane of the United States District Court for the Middle District of Pennsylvania (the District Court) issued a decision in which the District Court determined that tolls assessed by the Commission do not unduly burden interstate commerce or interfere with the constitutional right to travel and the Trucking Plaintiffs' complaint failed to state a claim upon which relief may be granted for violations of the dormant Commerce Clause or the constitutional right to travel. Accordingly, the District Court granted the Defendants' motions to dismiss the Trucking Plaintiffs' complaint. On August 13, 2019, the United States Court of Appeals for the Third Circuit affirmed the decision of the District Court, and subsequently denied the Trucking Plaintiffs' petition both for a panel rehearing and an en banc rehearing.

Events That Will Impact Financial Position *(continued)*

Litigation *(continued)*

Owner Operator Independent Drivers Association, Inc. v. Pennsylvania Turnpike Commission (continued)

On December 11, 2019, the Trucking Plaintiffs filed a petition for a writ of certiorari in the United States Supreme Court (the Supreme Court) asking the Supreme Court to review the decision of the Third Circuit. On January 27, 2020, the Supreme Court denied the Trucking Plaintiffs' petition for a writ of certiorari asking the Supreme Court to review the decision of the Third Circuit. *Owner Operator Independent Drivers Association, Inc. et al. v. Pennsylvania Turnpike Commission et al.*, cert. denied (U.S. Jan 27, 2020) (No. 19-762). This denial by the Supreme Court left undisturbed the favorable decision of the Third Circuit. The Trucking Plaintiffs did not file a petition for rehearing, as permitted by the Supreme Court rules, and the period to file such a petition expired on February 21, 2020. Thus, the class action lawsuit has concluded favorably to the Commission.

Julie E. Thomas v. TransCore, LP & Pennsylvania Turnpike Commission

On April 28, 2021, Julie Thomas (the Plaintiff), an E-ZPass customer and frequent traveler on the System, filed a putative class action lawsuit against the Commission, and TransCore, L.P. (TransCore), as the vendor that provides, operates, and maintains the Electronic Toll Collection Customer Service Center and Violations Processing Center.

The Commission and TransCore were served with the complaint on May 24, 2021. The complaint centers mostly on video tolls (V-Tolls). A V-Toll is an E-ZPass charge that is assessed when, for any reason, the customer's E-ZPass transponder is not read on both the customer's entry and exit from the System, resulting in a toll assessment based upon a video snapshot of the customer's license plate.

The Plaintiff asserts claims for conversion and unjust enrichment against the Commission, as well as additional claims against TransCore. The Plaintiff principally alleges that (i) the V-Tolls charged to her account are excessive and amount to disproportionate fines and penalties, (ii) refunds should be made to the customer's bank accounts, not the E-ZPass account, and (iii) the Commission and TransCore failed to notify E-ZPass customers that newly installed tolling equipment is incompatible with older E-ZPass transponders; resulting in more V-Tolls and overall higher tolls. Based on these allegations, the Plaintiff seeks, among other things, compensatory and punitive damages, as well as attorney's fees and costs, and asks the Court to certify a class action.

On June 14, 2021, TransCore filed a notice of removal seeking to move this matter from Dauphin County Court of Common Pleas. The matter was removed to the U.S. District Court for the Eastern District of Pennsylvania. On June 21, 2021, both the Commission and TransCore filed motions to dismiss. In response, Plaintiff filed a motion to remand the action to state court, which the Commission and TransCore have opposed.

Events That Will Impact Financial Position *(continued)*

Litigation *(continued)*

Julie E. Thomas v. TransCore, LP & Pennsylvania Turnpike Commission (continued)

The Commission cannot, at this time, predict the ultimate outcome, but will continue to assert all available defenses against these allegations in court.

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Statements of Net Position – Business-type activities
May 31, 2021 and 2020
(in thousands)

	2021	2020
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets		
Cash and cash equivalents	$ 225,679	$ 198,564
Investments	52,563	78,655
Accounts receivable - net of allowance of $293.5 million and $229.6 million as of May 31, 2021 and 2020, respectively	118,340	65,631
Accrued interest receivable	1,845	2,066
Inventories	19,203	24,685
Restricted current assets		
Cash and cash equivalents	601,489	707,766
Investments	419,095	341,586
Accounts receivable	18,004	3,180
Accrued interest receivable	3,987	15,049
Total current assets	1,460,205	1,437,182
Noncurrent assets		
Investments		
Investments	425,849	354,491
Investments restricted	829,994	865,449
Total investments	1,255,843	1,219,940
Capital assets not being depreciated		
Land and intangibles	442,257	425,643
Assets under construction	2,288,309	1,788,685
Capital assets being depreciated		
Buildings	987,325	983,739
Improvements other than buildings	160,973	151,066
Equipment	581,800	706,803
Infrastructure	8,964,668	8,946,265
Total capital assets before accumulated depreciation	13,425,332	13,002,201
Less: Accumulated depreciation	6,749,286	6,592,200
Total capital assets after accumulated depreciation	6,676,046	6,410,001
Other assets		
Prepaid bond insurance costs	5,536	5,875
Other assets	27,084	26,646
Total other assets	32,620	32,521
Total noncurrent assets	7,964,509	7,662,462
Total assets	9,424,714	9,099,644
Deferred outflows of resources from hedging derivatives	119,058	217,154
Deferred outflows of resources from refunding bonds	305,548	343,723
Deferred outflows of resources from pensions	50,676	37,837
Deferred outflows of resources from OPEB	70,674	27,715
Total deferred outflows of resources	545,956	626,429
Total assets and deferred outflows of resources	$ 9,970,670	$ 9,726,073

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 – Business-type activities *(continued)*
May 31, 2021 and 2020
(in thousands)

	2021	2020
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current liabilities		
Accounts payable and accrued liabilities	$ 549,237	$ 517,240
Current portion of debt	480,170	573,880
Unearned Income	105,702	90,369
Total current liabilities	1,135,109	1,181,489
Noncurrent liabilities		
Debt, less current portion, net of unamortized premium of $1,262.9 million and $1,143.1 million in 2021 and 2020, respectively	15,323,360	14,383,020
Net pension liability	288,472	329,189
Net OPEB liability	14,791	1,845
Other noncurrent liabilities	278,928	355,661
Total noncurrent liabilities	15,905,551	15,069,715
Total liabilities	17,040,660	16,251,204
Deferred inflows of resources from hedging derivatives	7,688	-
Deferred inflows of resources from service concession arrangements	101,028	106,450
Deferred inflows of resources from refunding bonds	8,415	11,634
Deferred inflows of resources from pensions	83,563	42,492
Deferred inflows of resources from OPEB	4,284	5,441
Total deferred inflows of resources	204,978	166,017
Total liabilities and deferred inflows of resources	17,245,638	16,417,221
NET POSITION		
Net investment in capital assets	(1,115,845)	(903,089)
Restricted for construction purposes	276,847	411,313
Restricted for debt service	45,913	42,619
Unrestricted	(6,481,883)	(6,241,991)
Total net position	$ (7,274,968)	$ (6,691,148)

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 – Business-type activities
Years Ended May 31, 2021 and 2020
(in thousands)

	2021	2020
Operating revenues		
Fares - net of discounts, adjustments and bad debt expense of $68.4 million and $41.8 million for the years ended May 31, 2021 and 2020, respectively	$ 1,190,419	$ 1,247,779
Other	41,130	36,004
Total operating revenues	1,231,549	1,283,783
Operating expenses		
Cost of services	509,381	533,931
Depreciation	373,924	382,088
Total operating expenses	883,305	916,019
Operating income	348,244	367,764
Nonoperating revenues (expenses)		
Investment earnings	15,336	90,345
Other nonoperating revenues	12,996	22,693
Act 44 and Act 89 payments to PennDOT	(450,000)	(450,000)
Capital assets transferred to the Commonwealth	(2,769)	(294)
Interest and bond expense	(671,774)	(652,901)
Nonoperating expenses, net	(1,096,211)	(990,157)
Loss before capital contributions	(747,967)	(622,393)
Capital contributions	164,147	173,486
Decrease in net position	(583,820)	(448,907)
Net position at beginning of year	(6,691,148)	(6,242,241)
Net position at end of year	$ (7,274,968)	$ (6,691,148)

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 – Business-type activities
Years Ended May 31, 2021 and 2020
(in thousands)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customer tolls and deposits	$ 1,196,461	$ 1,275,558
Cash payments for goods and services	(394,501)	(354,160)
Cash payments to employees	(154,324)	(161,761)
Cash received from other operating activities	9,082	16,572
Net cash provided by operating activities	656,718	776,209
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	2,746,488	4,179,110
Interest received on investments	25,335	35,659
Purchase of investments	(2,840,638)	(4,150,842)
Net cash (used in) provided by investing activities	(68,815)	63,927
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants received from other governments	1,262	5,845
Proceeds from Motor License Registration fees	28,000	28,000
Proceeds from Oil Company Franchise Tax	114,176	141,665
Construction and acquisition of capital assets	(646,603)	(659,425)
Proceeds from sale of capital assets	2,431	2,057
Payments for bond and swap expenses	(7,315)	(5,118)
Payments for cash defeasances	(66,225)	-
Payments for debt refundings	(225,000)	(574,829)
Payments for bond maturities	(28,700)	(109,150)
Repayment of EB-5 Loan	(200,442)	-
Interest paid on debt	(332,533)	(330,711)
Interest subsidy from Build America Bonds	31,633	10,533
Swap suspension payments received	-	2,443
Proceeds from draw on line of credit	150,000	-
Repayment of draw on line of credit	(150,000)	-
Proceeds from debt issuances	936,604	1,073,553
Net cash used in capital and related financing activities	(392,712)	(415,137)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash payments to PennDOT	(450,000)	(900,000)
Payments for bond and swap expenses	(2,744)	(8,636)
Payments for cash defeasances	(43,092)	(51,164)
Payments for debt refundings	-	(481,197)
Payments for debt maturities	(13,075)	(76,905)
Interest paid on debt	(297,054)	(285,859)
Proceeds from debt issuances	531,612	1,285,176
Net cash used in noncapital financing activities	(274,353)	(518,585)
Decrease in cash and cash equivalents	(79,162)	(93,586)
Cash and cash equivalents at beginning of year	906,330	999,916
Cash and cash equivalents at end of year	$ 827,168	$ 906,330

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 – Business-type activities *(continued)*
Years Ended May 31, 2021 and 2020
(in thousands)

	2021	2020
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 348,244	$ 367,764
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	373,924	382,088
Change in operating assets and liabilities		
Accounts receivable	(52,669)	12,989
Inventories	5,482	(5,395)
Other assets	(16)	(7)
Deferred outflows of resources from pensions	(12,839)	38,855
Deferred outflows of resources from OPEB	(42,959)	11,610
Accounts payable and accrued liabilities	25,485	12,652
Net pension liability	(40,717)	(56,632)
Net OPEB liability	12,946	(11,089)
Other noncurrent liabilities	(77)	1,456
Deferred inflows of resources from pensions	41,071	20,961
Deferred inflows of resources from OPEB	(1,157)	957
Net cash provided by operating activities	$ 656,718	$ 776,209
Reconciliation of cash and cash equivalents to the statements of net position		
Cash and cash equivalents	$ 225,679	$ 198,564
Restricted cash and cash equivalents	601,489	707,766
Total cash and cash equivalents	$ 827,168	$ 906,330

Noncash Investing, Capital and Related Financing and Noncapital Financing Activities

The Commission recorded a net decrease of $10.1 million and a net increase of $50.7 million in the fair value of its investments not reported as cash equivalents for the years ended May 31, 2021 and 2020, respectively.

The Commission recorded $58.9 million and $57.7 million for the amortization of bond premiums for the years ended May 31, 2021 and 2020, respectively.

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

Noncash Investing, Capital and Related Financing and Noncapital Financing Activities *(continued)*

As indicated in Note 7, the Commission refunded and cash defeased various bonds in both fiscal years 2021 and 2020. The fiscal year 2021 refundings and cash defeasances resulted in a $5.8 million reclassification from bond premiums (discounts) to deferred inflows of resources from refundings. The fiscal year 2020 refundings and cash defeasances resulted in a $19.1 million reclassification from bond premiums (discounts) to deferred outflows of resources from refunding bonds and a $41.7 million reclassification from bond premiums (discounts) to deferred inflows of resources from refundings. Additionally, the Commission recorded $64.5 million and $40.7 million in expenses for amortization of deferred outflows/inflows of resources from refunding bonds for the years ended May 31, 2021 and 2020, respectively.

The Commission recorded $0.3 million in expenses for amortization of prepaid bond insurance costs for the years ended May 31, 2021 and 2020, respectively.

The Commission recorded an interest expense reduction of $5.9 million and $3.4 million for the years ended May 31, 2021 and 2020, respectively, related to GASB Statement No. 53 entries.

The Commission recognized total capital contributions of $164.1 million for the fiscal year ended May 31, 2021. Cash received of $143.4 million for the fiscal year ended May 31, 2021 is reported in the capital and related financing activities of this statement. The $20.7 million difference between capital contributions and cash received is the result of a $14.9 million increase in receivables related to these capital contributions and a $5.8 million noncash capital contribution related to capital assets provided by service plaza operators. The Commission recognized total capital contributions of $173.5 million for the fiscal year ended May 31, 2020. Cash received of $175.5 million for the fiscal year ended May 31, 2020 is reported in the capital and related financing activities of this statement. The $2.0 million difference between capital contributions and cash received is the result of a $7.8 million decrease in receivables related to these capital contributions and a $5.8 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 provided 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.

During fiscal year 2021, the Commission transferred portable radios with a book value of $2.8 million to the Pennsylvania State Police. During fiscal year 2020, the Commission transferred land with a book value of $0.3 million to the Pennsylvania Game Commission.

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Statements of Fiduciary Net Position – Fiduciary activities
May 31, 2021 and 2020

	2021	2020
	(in thousands)	
ASSETS		
Cash and cash equivalents	$ 4,816	$ 10,142
Interest and dividends receivable	360	343
Investments		
Equity – stocks	17,025	13,920
Equity – mutual funds	263,266	169,868
Fixed income – mutual funds	42,326	42,086
Fixed income – U.S. Treasuries	46,490	13,633
Fixed income – U.S. Government agency securities	14,969	10,763
Corporate obligations	22,957	38,173
Limited partnerships		
Real estate	72,700	71,516
Commodities	21,125	18,992
Global tactical asset allocation	47,817	40,835
Private debt	4,212	2,194
Private equity	837	-
Total limited partnerships	146,691	133,537
Hedge fund of funds	43,128	33,658
Total investments	596,852	455,638
Total assets	602,028	466,123
LIABILITIES		
Benefits payable	538	544
Other liabilities	188	155
Total liabilities	726	699
Net position – restricted for OPEB	$ 601,302	$ 465,424

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

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Statements of Changes in Fiduciary Net Position – Fiduciary activities
Years Ended May 31, 2021 and 2020

	2021	2020
	(in thousands)	
ADDITIONS		
Employer contributions	$ 47,250	$ 11,730
Net investment income		
Interest, dividends, and capital gains income	8,829	10,039
Change in fair value of investments	101,263	4,943
Investment fees	(878)	(786)
Total net investment income	109,214	14,196
Total additions	156,464	25,926
DEDUCTIONS		
Benefit payments	20,582	20,848
Administrative expenses	4	8
Total deductions	20,586	20,856
Change in fiduciary net position	135,878	5,070
Net position – restricted for OPEB		
Beginning of year	465,424	460,354
End of year	$ 601,302	$ 465,424

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

NOTE 1 FINANCIAL REPORTING ENTITY

Accounting principles generally accepted in the United States (U.S. GAAP) 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 (Commonwealth) 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.

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.

The Commission maintains an Other Postemployment 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 Section 115 of the Internal Revenue Code, to provide funding of the Plan's other postemployment benefits (OPEB). The Trust is administered by Trustees who are appointed by and serve at the pleasure of the Commission. The chairman and vice chairman of the Trust are appointed by the Trustees and serve two-year terms. In accordance with GASB Statement No. 84, *Fiduciary Activities*, the Plan is a fiduciary component unit of the Commission.

Based on the application of the criteria set forth by the Governmental Accounting Standards Board (GASB), the Commission has determined that it has no other component units based on its review of GASB Statements No. 14, *The Financial Reporting Entity*, No. 39, *Determining Whether Certain Organizations are Component Units – an amendment of GASB Statement No. 14*, No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14* and No. 84, *Fiduciary Activities*.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Commission's business-type activities (enterprise fund) and fiduciary activities (fiduciary fund) have been prepared in conformity with U.S. 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 enterprise and fiduciary fund financial statements (the financial statements) are presented on the accrual basis of accounting.

Reclassifications

Certain amounts presented in the prior period have been reclassified to conform to the current year financial statement presentation. Approximately $6.7 million of deferred inflows of resources related to the difference between projected and actual earnings on OPEB plan investments were reclassified to net against the deferred outflows of resources of the same category as of May 31, 2020. In addition, approximately $32.0 million of toll-related bad debt, was reclassified from other operating revenues to fare revenues for the fiscal year ended May 31, 2020. The above reclassifications did not have an impact on net position as of May 31, 2020.

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 the following: money market investments are reported at cost which does not materially differ from fair value, certain nonparticipating contracts such as repurchase agreements and other agreements structured as repurchase agreements are reported at cost which does not materially differ from fair value and guaranteed investment contracts are stated at contract value. The Commission categorizes its fair value measurements within the fair value hierarchy established by U.S. 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.

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

Accounts Receivable

Accounts receivable consist primarily of toll revenue receivables from customers and other E-ZPass agencies, fee revenue receivables from customers and reimbursement receivables from other governments. An allowance for uncollectible accounts receivable is established based on specific identification and historical experience.

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 and capital assets received in a service concession arrangement are measured at acquisition value. Acquisitions of capital assets valued at $15,000 or greater are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Intangible assets have an indefinite life and, thus, are not depreciated. The following lives are used:

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

Inventories

Inventories are valued at average cost.

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.

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

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 has unearned income related to microwave tower leases. The Commission had total unearned income of $106.1 million and $90.9 million for fiscal years ended May 31, 2021 and 2020, respectively. Unearned income recorded as current liabilities was $105.7 million and $90.4 million for the fiscal years ended May 31, 2021 and 2020, respectively. Unearned income recorded as other noncurrent liabilities was $0.4 million and $0.5 million for the fiscal years ended May 31, 2021 and 2020, respectively.

Accounting Estimates

The preparation of the financial statements in conformity with U.S. GAAP 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's 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.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Pennsylvania Turnpike Commission's Other Postemployment Welfare Plan Program (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments, which are reported at cost.

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 five 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 from refunding bonds, deferred outflows/inflows related to pensions and deferred outflows/inflows related to other postemployment benefits.

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 from 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). Deferred outflows/inflows of resources related to OPEB are described further in Note 11. Investment (gains)/losses are recognized in OPEB expense over a period of five years; economic/demographic (gains)/losses and assumption changes or inputs are recognized over the average remaining service life for all active and inactive members.

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:

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

Net Position *(continued)*

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

Restricted – This component of net position consists of restricted assets 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 such as creditors, grantors and contributors,
- Laws or regulations of other governments, or
- 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, offset by discounts, toll-related bad debt and other adjustments. Other operating revenues include service station, restaurant, property and other rental income, as well as revenue from various sponsorship agreements. Also included are electronic toll collection fees related to E-ZPass and Toll By Plate (TBP) programs, as well as related bad debt expense.

Fare Revenues

Fare revenues are recognized when vehicles exit the Turnpike System.

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

Operating Revenues *(continued)*

Fare Revenues (continued)

During fiscal year 2016, the Commission implemented TBP, a license plate tolling system for customers without a valid E-ZPass. The TBP program offers cashless, nonstop travel at tolling points throughout the Turnpike System. This 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 year 2020, approximately 86.8% of the fare revenues were realized through electronic toll collection. For fiscal year 2020, approximately 13.2% of the fare revenues were realized through cash or credit card collection.

Effective March 16, 2020, due to the COVID-19 pandemic, the Commission implemented all-electronic tolling across the system. With existing cameras on the entry lanes, the Commission was able to utilize the TBP system at the remaining tolling points. For fiscal years 2021 and 2020, approximately 15.0% and 2.8%, respectively, of the fare revenues were realized through TBP, which are included as a part of all-electronic tolling.

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, the Commission’s policy is to use restricted resources first and then unrestricted resources as needed.

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

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 the Commonwealth, 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 the Commonwealth of Pennsylvania

During the fiscal year ended May 31, 2021, the Commission transferred portable radios to the Pennsylvania State Police. The book value of the radios transferred was $2.8 million.

During the fiscal year ended May 31, 2020, the Commission transferred land to the Pennsylvania Game Commission for impacts to grassland habitats resulting from highway projects. The book value of the land transferred was $0.3 million.

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 $124.2 million and $133.8 million for the fiscal years ended May 31, 2021 and 2020, respectively. These revenues are kept in a separate fund as required by the applicable bond indenture.

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

Capital Contributions *(continued)*

Motor License Registration Fee Revenues

The Commission received $28.0 million in registration fee revenue during each of the fiscal years ended May 31, 2021 and 2020 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, 2021 and 2020, the Commission recognized $6.1 million and $5.8 million, respectively, as capital contributions from the other governments. During fiscal year 2021, all of the reimbursements, except $24,000, were received from the Federal government. During fiscal year 2020, all of the reimbursements were received 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 provided the capital for the reconstruction in exchange for lower rental rates. The Commission recognized capital contribution revenues of $5.8 million related to these agreements for each of the fiscal years ended May 31, 2021 and 2020. See Note 6 for further discussion on service plazas.

Adoption of Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The Commission retroactively adopted Statement No. 84 for its fiscal years ended May 31, 2021 and 2020, resulting in the inclusion of Fiduciary Activity financial statements along with the Business-type Activity financial statements of the Commission. Fiduciary Activity financial statements were previously only issued in a stand-alone report. See the additional fiduciary statements as well as additional disclosures within the MD&A section and Note 1.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61*. The Commission adopted Statement No. 90 for its fiscal year ended May 31, 2021. The adoption of this Statement had no impact on the Commission's financial statements for fiscal year ended May 31, 2021.

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

Adoption of Accounting Pronouncements *(continued)*

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. In accordance with the guidance, the Commission adopted Statement No. 95 immediately. The effective dates of the Accounting Pronouncements Not Yet Adopted have been updated as applicable.

Accounting Pronouncements Not Yet Adopted

In June 2017, the GASB issued Statement No. 87, *Leases*. The Commission is required to adopt Statement No. 87 for the fiscal year ending May 31, 2023.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The Commission is required to adopt Statement No. 91 for the fiscal year ending May 31, 2023.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The Commission is required to adopt Statement No. 92 for the fiscal year ending May 31, 2023.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The Commission is required to adopt Statement No. 93 for the fiscal year ending May 31, 2023, with the exception of paragraph 11b which is required to be adopted for the fiscal year ending May 31, 2022.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The Commission is required to adopt Statement No. 94 for the fiscal year ending May 31, 2024.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The Commission is required to adopt Statement No. 96 for the fiscal year ending May 31, 2024.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. Paragraphs 4 and 5 of this Statement were effective immediately and were included with the other Statement No. 84 disclosures in the Commission's financial statements as of May 31, 2021. The Commission is required to adopt the remainder of Statement No. 97 for the fiscal year ending May 31, 2023.

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 U.S. Bank, N.A., as successor Trustee;
- An Oil Franchise Tax Trust Indenture, dated August 1, 1998, as supplemented, between the Commission and U.S. Bank, N.A., as successor Trustee;
- A Registration Fee Revenue Trust Indenture, dated August 1, 2005, between the Commission and U.S. Bank, N.A., as successor Trustee;
- A Subordinate Trust Indenture, dated April 1, 2008 as supplemented, between the Commission and Wells Fargo Bank, N.A., as successor Trustee; and
- A Special Obligation Trust Indenture, dated September 1, 2014, between the Commission and U.S. Bank, N.A., as successor Trustee.

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

NOTE 4 CASH AND INVESTMENTS

The following table is a summary of cash and cash equivalents and investments by type:

	May 31, 2021	May 31, 2020
	(In Thousands)	
Cash and cash equivalent and investment types		
U.S. Treasuries	$ 1,456,488	$ 1,316,725
GNMA mortgages	864	1,168
Government agency securities	37,777	73,030
Municipal bonds	91,451	39,518
Corporate obligations	125,031	204,816
Total investment securities	1,711,611	1,635,257
Investment derivatives	15,890	4,924
Cash and cash equivalents	827,168	906,330
Total cash and cash equivalents and investments	$ 2,554,669	$ 2,546,511

NOTE 4 CASH AND INVESTMENTS *(continued)*

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.

The following table is a summary of the Commission's cash and cash equivalents:

	Bank Balance	Book Balance
	(In Thousands)	
May 31, 2021		
Demand deposits	$ 32,463	$ 36,249
Money market funds	739,562	739,562
Cash equivalents	51,357	51,357
Total cash and cash equivalents	$ 823,382	$ 827,168
May 31, 2020		
Demand deposits	$ 30,186	$ 32,494
Money market funds	809,903	809,903
Cash equivalents	63,933	63,933
Total cash and cash equivalents	$ 904,022	$ 906,330

Cash Equivalents and Investment Securities

The following is a description of the valuation methodologies used for investment securities measured at fair value:

- For the fiscal years ended May 31, 2021 and 2020, U.S. Treasuries of $1,456.5 million and $1,316.7 million, respectively, categorized as Level 1 are valued using quoted market prices.

- For the fiscal years ended May 31, 2021 and 2020, GNMA mortgages of $0.9 million and $1.2 million, respectively, categorized as Level 2 are valued using models based on spreads of comparable securities.

NOTE 4 CASH AND INVESTMENTS *(continued)*

Cash Equivalents and Investment Securities *(continued)*

- For the fiscal years ended May 31, 2021 and 2020, government agency securities of $37.8 million and $73.0 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.

- For the fiscal years ended May 31, 2021 and 2020, municipal bonds of $91.5 million and $39.5 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 the fiscal years ended May 31, 2021 and 2020, total corporate obligations were $125.0 million and $204.8 million, respectively. Of the May 31, 2021 and 2020 amounts, $18.2 million is a guaranteed investment contract, which is valued at the contract value. The remaining $106.8 million and $186.6 million as of May 31, 2021 and 2020, 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 the fiscal years ended May 31, 2021 and 2020, investment derivative instruments of $15.9 million and $4.9 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.

NOTE 4 CASH AND INVESTMENTS *(continued)*

Cash Equivalents and Investment Securities *(continued)*

The Indentures (as listed in Note 3) permit investments in obligations of, or are 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 Investors Service (Moody's), Standard & Poor's Ratings Group (S&P) and Fitch Investors Service (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.

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 $50.0 million;
- 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 at least two of the three rating agencies (S&P, Moody's and Fitch);
- 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 'AA' by S&P and 'Aa2' by Moody's issued by the following government-sponsored enterprises: Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association;

NOTE 4 CASH AND INVESTMENTS *(continued)*

Cash Equivalents and Investment Securities *(continued)*

- 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, whether for itself, or as a conduit issuer, provided that the securities are rated in the ‘Aa/AA’ category by at least two of S&P, Moody’s and Fitch and do not have a rating from any of S&P, Moody’s and Fitch below the ‘Aa/AA’ category (without regard to subcategories of ratings), and provided that if a short-term rating is provided for the securities that they are rated in the top tier by at least two of the three of S&P (‘A-1’ or better), Moody’s (‘VMIG1’ or ‘P1’), and Fitch (‘F1’) and do not have a rating from any of the three rating agencies below such levels;

- Commercial paper rated by at least two of S&P, Moody’s and Fitch and not less than ‘A-1/P-1/F-1’ by S&P, Moody’s and Fitch, respectively;

- Corporate bonds rated ‘Aa3/AA-‘ or better by Moody’s and S&P;

- Asset-backed securities rated ‘AAA’ by Moody’s and S&P;

- 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

- Share or Certificates in any short-term investment fund that invests 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 take advantage of 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 in total are limited to 30% of the portfolio.

NOTE 4 CASH AND INVESTMENTS *(continued)*

Cash Equivalents and Investment Securities *(continued)*

- Combined exposure to commercial paper, corporate bonds, and asset-backed securities 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 at the time of purchase, taking into consideration call, put, prepayment, or other features that may impact maturity. Similarly, the weighted average life of mortgages and asset-backed securities may not be more than five years. As of May 31, 2021 and 2020, the Commission did not hold any securities that were not in compliance with the Investment Policy guidelines.

Credit Risk

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

	Quality Rating as of May 31, 2021					
Investment Type	**AAA**	**AA**	**A**	**A-1**	**Below A**	**Total**
			(In Thousands)			
Government agency securities	$ 2,027	$ 35,750	$ -	$ -	$ -	$ 37,777
Municipal bonds	13,958	12,273	14,101	51,119	-	91,451
Corporate obligations	28,406	64,871	16,811	14,878	65	125,031
	$ 44,391	$ 112,894	$ 30,912	$ 65,997	$ 65	$ 254,259

	Quality Rating as of May 31, 2020					
Investment Type	**AAA**	**AA**	**A**	**A-1**	**Below A**	**Total**
			(In Thousands)			
Government agency securities	$ 5,754	$ 67,276	$ -	$ -	$ -	$ 73,030
Municipal bonds	13,734	8,191	16,098	1,495	-	39,518
Corporate obligations	36,854	132,028	20,978	14,876	80	204,816
	$ 56,342	$ 207,495	$ 37,076	$ 16,371	$ 80	$ 317,364

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

Concentration of Credit Risk

As of May 31, 2021 and 2020, the Commission did not have any investments that violated the 5% limit for a single issuer or the other concentration of credit risk limitations in the Commission's investment policy noted above.

NOTE 4 CASH AND INVESTMENTS *(continued)*

Interest Rate Risk

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

	As of May 31, 2021	
Investment Type	**Fair Value**	**Effective Duration**
	(In Thousands)	*(In Years)*
U.S. Treasuries	$ 1,456,488	2.4230
GNMA mortgages	864	4.3809
Government agency securities	37,777	0.8322
Municipal bonds	91,451	1.2678
Corporate obligations	125,031	1.4657
Total investment securities	$ 1,711,611	

	As of May 31, 2020	
Investment Type	**Fair Value**	**Effective Duration**
	(In Thousands)	*(In Years)*
U.S. Treasuries	$ 1,316,725	2.7168
GNMA mortgages	1,168	4.2897
Government agency securities	73,030	0.6905
Municipal bonds	39,518	2.3269
Corporate obligations	204,816	1.1416
Total investment securities	$ 1,635,257	

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. As of May 31, 2021 and 2020, $32.0 million and $29.7 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 not in the Commission's name. None of the Commission's investments were exposed to custodial credit risk as of May 31, 2021 or 2020.

NOTE 4 CASH AND INVESTMENTS *(continued)*

Investment Derivative Instruments

The following table is a summary of the Commission's investment derivative instruments as of May 31, 2021:

**	Notional Amount *(Thousands)*	Weighted Avg. Mat. *(Years)*	Effective Date	Maturity Date	Terms	Fair Value *(Thousands)*	Counterparty	Credit Ratings Moody's/ S&P's/Fitch
	$ 112,000				Pay SIFMA, receive 63% of 1-month LIBOR + 20 bps	$ (172)	JPMorgan Chase Bank	Aa2/A+/AA
	48,000					(73)	Bank of New York Mellon	Aa2/AA-/AA
A	160,000	8.1	8/14/2003	12/1/2032		(245)		
	80,000				Pay 67% of 1-month LIBOR, receive 60.15% of the 10 year maturity of the USD-ISDA Swap rate	3,214	JPMorgan Chase Bank	Aa2/A+/AA
	80,000					3,237	Royal Bank of Canada	Aa2/AA-/AA
B	160,000	8.0	9/19/2006	11/15/2032		6,451		
C	115,810	10.8	6/1/2010	6/1/2039	Pay SIFMA, receive 99.68% of 3-month LIBOR	4,588	Goldman Sachs MMDP	Aa2/AA-/NR
D	115,810	10.8	6/1/2010	6/1/2039	Pay SIFMA, receive 99.80% of 3-month LIBOR	5,096	Deutsche Bank	A3/BBB+/BBB
						$ 15,890		

1-month LIBOR was 0.08588% as of May 31, 2021.
3-month LIBOR was 0.13138% as of May 31, 2021.
10-year maturity of the USD-ISDA swap rate was 1.556% as of May 31, 2021.
SIFMA was 0.05% as of May 31, 2021.
** Letters are used as references in Note 9 (Commitments and Contingencies).

The following table is a summary of the Commission's investment derivative instruments as of May 31, 2020:

**	Notional Amount *(Thousands)*	Weighted Avg. Mat. *(Years)*	Effective Date	Maturity Date	Terms	Fair Value *(Thousands)*	Counterparty	Credit Ratings Moody's/ S&P's/Fitch
	$ 112,000				Pay SIFMA, receive 63% of 1-month LIBOR + 20 bps	$ (137)	JPMorgan Chase Bank	Aa2/A+/AA
	48,000					(58)	Bank of New York Mellon	Aa2/AA-/AA
A	160,000	9.1	8/14/2003	12/1/2032		(195)		
	80,000				Pay 67% of 1-month LIBOR, receive 60.15% of the 10 year maturity of the USD-ISDA Swap rate	1,943	JPMorgan Chase Bank	Aa2/A+/AA
	80,000					1,969	Royal Bank of Canada	Aa2/AA-/AA
B	160,000	9.0	9/19/2006	11/15/2032		3,912		
C	115,810	11.8	6/1/2010	6/1/2039	Pay SIFMA, receive 99.68% of 3-month LIBOR	566	Goldman Sachs MMDP	Aa2/AA-/NR
D	115,810	11.8	6/1/2010	6/1/2039	Pay SIFMA, receive 99.80% of 3-month LIBOR	641	Deutsche Bank	A3/BBB+/BBB
						$ 4,924		

1-month LIBOR was 0.18250% as of May 31, 2020.
3-month LIBOR was 0.34400% as of May 31, 2020.
10-year maturity of the USD-ISDA swap rate was 0.657% as of May 31, 2020.
SIFMA was 0.14% as of May 31, 2020.
** Letters are used as references in Note 9 (Commitments and Contingencies).

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

NOTE 5 CAPITAL ASSETS

Summaries of changes to capital assets for the years ended May 31, 2021 and 2020 are as follows:

	Balance May 31, 2020	Additions	Transfers (In Thousands)	Reductions	Balance May 31, 2021
Capital assets not being depreciated (cost)					
Land and intangibles	$ 425,643	$ 16,614	$ -	$ -	$ 442,257
Assets under construction	1,788,685	621,588	(121,964)	-	2,288,309
Total capital assets not being depreciated	2,214,328	638,202	(121,964)	-	2,730,566
Capital assets being depreciated (cost)					
Buildings	983,739	-	3,586	-	987,325
Improvements other than buildings	151,066	-	10,381	474	160,973
Equipment	706,803	13,217	23,719	161,939	581,800
Infrastructure	8,946,265	-	84,278	65,875	8,964,668
Total capital assets being depreciated	10,787,873	13,217	121,964	228,288	10,694,766
Less accumulated depreciation for					
Buildings	459,049	23,157	-	-	482,206
Improvements other than buildings	90,026	6,920	-	473	96,473
Equipment	567,999	34,909	-	150,489	452,419
Infrastructure	5,475,126	308,938	-	65,876	5,718,188
Total accumulated depreciation	6,592,200	373,924	-	216,838	6,749,286
Total capital assets being depreciated, net	4,195,673	(360,707)	121,964	11,450	3,945,480
Total capital assets	$ 6,410,001	$ 277,495	$ -	$ 11,450	$ 6,676,046

	Balance May 31, 2019	Additions	Transfers (In Thousands)	Reductions	Balance May 31, 2020
Capital assets not being depreciated (cost)					
Land and intangibles	$ 405,643	$ 20,420	$ -	$ 420	$ 425,643
Assets under construction	1,490,161	620,870	(322,346)	-	1,788,685
Total capital assets not being depreciated	1,895,804	641,290	(322,346)	420	2,214,328
Capital assets being depreciated (cost)					
Buildings	981,115	-	2,624	-	983,739
Improvements other than buildings	150,306	-	760	-	151,066
Equipment	642,785	11,273	64,253	11,508	706,803
Infrastructure	9,044,067	-	254,709	352,511	8,946,265
Total capital assets being depreciated	10,818,273	11,273	322,346	364,019	10,787,873
Less accumulated depreciation for					
Buildings	435,971	23,078	-	-	459,049
Improvements other than buildings	83,828	6,198	-	-	90,026
Equipment	539,630	39,826	-	11,457	567,999
Infrastructure	5,514,650	312,986	-	352,510	5,475,126
Total accumulated depreciation	6,574,079	382,088	-	363,967	6,592,200
Total capital assets being depreciated, net	4,244,194	(370,815)	322,346	52	4,195,673
Total capital assets	$ 6,139,998	$ 270,475	$ -	$ 472	$ 6,410,001

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. During fiscal year 2018, the agreement with Sunoco Retail LLC was assigned to 7-Eleven, Inc. All terms of the contract remained the same. 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 7-Eleven, Inc. expire on August 25, 2036 and January 31, 2022, respectively. 7-Eleven Inc.'s lease may be extended for three additional five-year periods. The first extension shall be at the discretion of 7-Eleven, Inc., and the second and third extensions shall be mutually agreed to by both parties.

As of May 31, 2021, the Commission had capitalized $125.4 million in capital assets representing all 17 service plazas that had fully completed construction and recorded deferred inflows of resources of $74.0 million related to these assets in accordance with GASB Statement No. 60. Also, as of May 31, 2021 and in accordance with GASB Statement No. 60, the Commission recognized a receivable and deferred inflow of resources in the amount of $27.0 million for the present value of guaranteed minimum rent payments. Due to the COVID-19 pandemic, in a letter dated April 8, 2020, the Commission waived the payment of minimum annual rent as set forth in the lease agreement for calendar year 2020. The receivable and deferred inflow of resources have been adjusted for this waiver. As of May 31, 2021, all deferred percentage rent payments had been received.

As of May 31, 2020, the Commission had capitalized $125.4 million in capital assets representing all 17 service plazas that had fully completed construction and recorded deferred inflows of resources of $79.9 million related to these assets in accordance with GASB Statement No. 60. Also, as of May 31, 2020 and in accordance with GASB Statement No. 60, the Commission recognized a receivable and deferred inflow of resources in the amount of $26.6 million for the present value of guaranteed minimum rent payments. Due to the COVID-19 pandemic, in a letter dated April 8, 2020, the Commission waived the payment of minimum annual rent as set forth in the lease agreement for calendar year 2020. The receivable and deferred inflow of resources have been adjusted for this waiver.

NOTE 7 DEBT

The following table is a summary of debt outstanding:

	May 31, 2021	May 31, 2020
	(In Thousands)	
Mainline Senior Debt		
Mainline Senior Bonds		
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
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. Partially defeased in May 2019 and November 2020.	36,010	51,935
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. Partially refunded in October 2017, December 2017 and January 2020. Partially defeased in May 2019 & November 2020.	15,420	19,730
2013 Series B: Issued $265,155 in July 2013 at a variable rate (based on SIFMA + .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 and June 2019. Fully refunded in June 2020.	-	100,000
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. Partially refunded in October 2017, December 2017 and January 2020. Partially defeased in November 2020.	46,635	48,135
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. Partially refunded in October 2017. Partially defeased in November 2020.	231,450	231,905
2014 Series B-1: Issued $444,280 in May 2014 at a variable rate (based on SIFMA + .05% to .98%, reset weekly, paid the 1st of each month). Due in varying installments through December 1, 2021. Partially refunded in June 2015, June 2016, October 2017, July 2018, June 2019 and June 2020.	150,000	250,000
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. Partially refunded in October 2017. Partially defeased in November 2020.	281,925	284,200
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. Partially defeased in November 2020.	384,605	385,095
2015 Series A-2: Issued $115,635 in June 2015 at a variable rate (based on SIFMA + .15% to .90%, reset weekly, paid the 1st of each month). Due in varying installments through December 1, 2021.	25,000	25,000
2015 Series B: Issued $304,005 in December 2015 at 2.50% to 5.00%, due in varying installments through December 1, 2045. Interest paid each June 1 and December 1. Partially defeased in November 2020.	301,515	302,810
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. Partially defeased in November 2020.	447,330	447,850
2017 Series A-1: Issued $365,895 in October 2017 at 3.00% to 5.00% due in varying installments through December 1, 2047. Interest is paid each June 1 and December 1. Partially defeased in November 2020.	347,995	354,205
2017 Series A-2 Refunding: Issued $133,060 in October 2017 at 5.00% due in varying installments through December 1, 2030. Interest is paid each June 1 and December 1.	133,060	133,060
2018 Series A-1: Issued $182,455 in June 2018 at a variable rate (based on SIFMA + .35% to .60%, reset weekly, paid the 1st of each month). Due in varying installments through December 1, 2023. Partially refunded in June 2020.	157,455	182,455
2018 Series A-2: Issued $307,935 in June 2018 at 5% due in varying installments through December 1, 2048. Interest is paid each June 1 and December 1.	307,935	307,935
2018 Series B: Issued $141,200 in November 2018 at a variable rate (based on SIFMA + .50% to .70 %, reset weekly, paid the 1st of each month). Due in varying installments through December 1, 2023.	141,200	141,200
2019 First Series: Issued $84,365 in February 2019 at 5% due in varying installments through December 1, 2033. Interest is paid each June 1 and December 1.	84,365	84,365
2019 Second Series: Issued $139,815 in June 2019 at a variable rate (determined by the Remarketing Agent in accordance with the procedures detailed in the Bond Official Statement, paid the 1st of each month). Due in one installment on December 1, 2038.	139,815	139,815
2019 Series A: Issued $341,325 in August 2019 at 2.00% to 5.00% due in varying installments through December 1, 2049. Interest is paid each June 1 and December 1. Partially defeased in November 2020.	335,920	341,325
2019 Forward Delivery Series: Issued $179,815 in September 2019 at 5.00% due in varying installments through December 1, 2025. Interest is paid each June 1 and December 1. Partially defeased in November 2020.	153,585	179,815
2020 First Series: Issued $234,320 in January 2020 at 1.81% to 3.44% due in varying installments through December 1, 2043. Interest is paid each June 1 and December 1.	233,885	234,320

NOTE 7 DEBT *(continued)*

The following table is a summary of debt outstanding: *(continued)*

	May 31, 2021	May 31, 2020
	(In Thousands)	
Mainline Senior Debt (continued)		
Mainline Senior Bonds (continued)		
2020 Series: Issued $225,820 in June 2020 at a variable rate (determined by the Remarketing Agent in accordance with the procedures detailed in the Bond Official Statement, paid the 1st of each month). Due in one installment on December 1, 2039.	$ 225,820	$ -
2020 Series A: Issued $100,500 in August 2020 at a variable rate (determined by the Remarketing Agent in accordance with the procedures detailed in the Bond Official Statement, paid the 1st of each month). Due in varying installments through December 1, 2050.	100,500	-
2020 Series B: Issued $241,625 in October 2020 at 5.00% due in varying installments through December 1, 2050. Interest is paid each June 1 and December 1.	241,625	-
2021 Series A: Issued $250,000 in April 2021 at 3.00% to 5.00% due in varying installments through December 1, 2051. Interest is paid each June 1 and December 1.	250,000	-
Total Mainline Senior Bonds	5,887,670	5,359,775
Mainline Senior Direct Placements & Direct Borrowings		
2016 EB-5 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. Fully refunded in March 2021.	-	150,000
2016 EB-5 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. Fully refunded in April 2021.	-	50,000
2018 EB-5 Loan (1st Tranche): Issued $50,000 in February 2018 at 2.00% due on February 21, 2023. Interest is paid each June 1 and December 1.	50,000	50,000
2018 EB-5 Loan (2nd Tranche): Issued $45,000 in November 2018 at 2.00% due on November 13, 2023. Interest is paid each June 1 and December 1.	45,000	45,000
2019 EB-5 Loan (3rd Tranche): Issued $52,000 in November 2019 at 2.00% due on November 5, 2024. Interest is paid each June 1 and December 1.	52,000	52,000
2020 EB-5 Loan (4th Tranche): Issued $36,500 in January 2020 at 2.00% due on January 21, 2025. Interest is paid each June 1 and December 1.	36,500	36,500
Total Mainline Senior Direct Placements & Direct Borrowings	183,500	383,500
Total Mainline Senior Debt	6,071,170	5,743,275
Mainline Subordinate Debt (consisting of Subordinate Revenue Debt and Motor License Fund-Enhanced Subordinate Special Revenue Debt)		
Mainline Subordinate Revenue Debt		
Mainline Subordinate Bonds		
2009 Series C Subordinate Revenue: Issued $99,998 in July 2009 at 6.25%, due in varying installments through June 1, 2033. Interest compounded semi-annually 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 E Subordinate Revenue: Issued $200,005 in October 2009 at 6.00% to 6.375%, due in varying installments through December 1, 2038. Interest compounded semi-annually until 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.	329,975	329,975
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, July 2017 and final refunding in November 2017. Sub-Series C-1 partially refunded in December 2017 and final refunding in November 2019. Sub-Series C-3 partially defeased in November 2020.	20,684	24,291
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. Partially refunded in December 2017, November 2019 and February 2020. Partially defeased in November 2020.	11,315	15,050
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. Partially refunded in July 2017, December 2017, November 2019 and February 2020. Partially defeased in November 2020.	9,220	12,770

NOTE 7 DEBT *(continued)*

The following table is a summary of debt outstanding: *(continued)*

	May 31, 2021	May 31, 2020
	(In Thousands)	
Mainline Subordinate Debt (consisting of Subordinate Revenue Debt and Motor License Fund-Enhanced Subordinate Special Revenue Debt) (continued)		
Mainline Subordinate Revenue Debt (continued)		
Mainline Subordinate Bonds		
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. Partially refunded in December 2017, November 2019 and February 2020. Partially defeased in November 2020.	$ 51,495	$ 55,170
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 to be compounded semi-annually until December 1, 2018, thereafter paid each June 1 and December 1. Partially refunded February 2020. Partially defeased in November 2020.	51,520	52,965
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 to be 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. Sub-Series B-3 partially refunded in December 2017 and final refunding in February 2020. Sub Series B-1 partially refunded in February 2020. Sub Series B-1 partially defeased in November 2020.	84,168	83,452
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 to be 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. Sub-Series A-1 partially defeased in November 2020.	157,690	157,452
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 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. Partially refunded in July 2017, November 2017 and December 2017. Partially defeased in November 2020.	130,665	131,070
2016 First Series Subordinate Revenue Refunding: 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. Partially defeased in May 2020.	313,210	313,210
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. Partially defeased in November 2020.	203,320	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 Second Series Subordinate Revenue Refunding: 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	649,545
2016 Third Series Sub-Series A Subordinate Revenue Refunding: Issued $255,455 in October 2016 at 3.375% to 5.00% due in varying installments through December 1, 2041. Interest is paid each June 1 and December 1.	255,455	255,455
2016 Third Series Sub-Series B Subordinate Revenue Refunding (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 each June 1 and December 1. Partially defeased in November 2020.	61,550	69,660
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	284,275
2017 Series B-1 Subordinate Revenue: Issued $379,115 in July 2017 at 5.00% To 5.25%. Due in varying installments through June 1, 2047. Interest paid each June 1 and December 1.	379,115	379,115
2017 Series B-2 Subordinate Revenue: Issued $371,395 in July 2017 at 4.00% to 5.00%. Due in varying installments through June 1, 2039. Interest paid each June 1 and December 1. Partially defeased in May 2020.	370,795	370,795
2017 Second Series Subordinate Revenue Refunding: Issued $150,425 in November 2017 at 5.00%. Due in varying installments through December 1, 2037. Interest paid each June 1 and December 1.	150,425	150,425
2017 Third Series Subordinate Revenue Refunding: Issued $143,585 in December 2017 at 4.00% to 5.00%. Due in varying installments through December 1, 2040. Interest paid each June 1 and December 1.	143,585	143,585
2019 Series A Subordinate Revenue: Issued $722,970 in June 2019 at 4.00% to 5.00%. Due in varying installments through December 1, 2049. Interest paid each June 1 and December 1.	722,970	722,970

NOTE 7 DEBT *(continued)*

The following table is a summary of debt outstanding: *(continued)*

	May 31, 2021	May 31, 2020
	(In Thousands)	
Mainline Subordinate Debt (consisting of Subordinate Revenue Debt and Motor License Fund-Enhanced Subordinate Special Revenue Debt) (continued) *Mainline Subordinate Revenue Debt (continued)*		
Mainline Subordinate Bonds *(continued)*		
2019 First Series Subordinate Revenue Refunding (Federally Taxable): Issued $86,730 in November 2019 at 2.16% to 3.78%. Due in varying installments through December 1, 2042. Interest paid each June 1 and December 1. Partially defeased in November 2020.	$ 86,525	$ 86,730
2020 First Series Subordinate Revenue Refunding (Federally Taxable): Issued $134,310 in February 2020 at 1.81% to 3.45%. Due in varying installments through December 1, 2043. Interest paid each June 1 and December 1. Partially defeased in November 2020.	122,465	134,310
2021 Series A Subordinate Revenue: Issued $465,730 in January 2021 at 3.00% to 4.00%. Due in varying installments through December 1, 2050. Interest paid each June 1 and December 1.	465,730	-
Total Mainline Subordinate Bonds	5,803,912	5,374,185
Mainline Subordinate Direct Placements & Direct Borrowings		
2017 First Series Subordinate Revenue Refunding: Issued $291,850 in May 2017 at a variable rate (based on SIFMA + .60% reset weekly, paid the 1st of each month commencing on June 1, 2017). Due in varying installments through December 1, 2041.	291,850	291,850
Total Mainline Subordinate Direct Placements & Direct Borrowings	291,850	291,850
Total Mainline Subordinate Debt	6,095,762	5,666,035
Motor License Fund-Enhanced Subordinate Special Revenue Debt		
2010 Sub-Series A-1, A-2, A-3 Motor License Fund-Enhanced Subordinate 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 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 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 and final refunding in November 2017. Sub-Series A-1 was partially refunded in November 2017 and final refunding in December 2017.	45,821	43,483
2010 Sub-Series B-1, B-2, B-3 Motor License Fund-Enhanced Subordinate 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 and July 2017 and final refunding in November 2017. Sub-Series B-1 was partially refunded in December 2017, November 2019 and fully refunded in February 2020.	21,212	24,945
2011 Series B Motor License Fund-Enhanced Subordinate 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. Partially refunded in July 2017, November 2017, December 2017, November 2019 and February 2020.	3,475	4,930
2012 Series A Motor License Fund-Enhanced Subordinate 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. Partially refunded in July 2017, November 2017, December 2017, November 2019 and February 2020.	3,690	4,855
2012 Series B Motor License Fund-Enhanced Subordinate 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. Partially refunded in July 2017 and December 2017, November 2019 and February 2020.	16,755	17,965
2013 Series A Motor License Fund-Enhanced Subordinate 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. Partially refunded in July 2017, November 2017, December 2017, November 2019 and February 2020.	6,030	7,585
2013 Sub-Series B-1, B-2, B-3 Motor License Fund-Enhanced Subordinate 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 to be 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. Partially refunded in July 2017, November 2017, December 2017 and February 2020.	46,510	46,129
2014 Series A Motor License Fund-Enhanced Subordinate Special Revenue: Issued $59,740 in April 2014 at 4.50% to 4.90%, due in varying installments through December 1, 2044. Series A were issued as convertible CABs. Interest to be compounded semi-annually until December 1, 2021, thereafter paid each June 1 and December 1. Compound interest paid at maturity or earlier redemption.	82,993	79,231

NOTE 7 DEBT *(continued)*

The following table is a summary of debt outstanding: *(continued)*

	May 31, 2021	May 31, 2020
	(In Thousands)	
Motor License Fund-Enhanced Subordinate Special Revenue Debt (continued)		
2016 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding: 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	$ 79,865
2017 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding: Issued $45,390 in July 2017 at 5.00%, due in varying installments through June 1, 2028. Interest due each June 1 and December 1.	45,390	45,390
2017 Second Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding: Issued $243,675 in November 2017 at 5.00%, due in varying installments through December 1, 2041. Interest due each June 1 and December 1.	243,675	243,675
2017 Third Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding: Issued $164,240 in December 2017 at 4.00% to 5.00%, due in varying installments through December 1, 2040. Interest due each June 1 and December 1.	164,240	164,240
2019 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding (Federally Taxable): Issued $151,130 in November 2019 at 2.01% to 3.58%, due in varying installments through December 1, 2043. Interest due each June 1 and December 1.	150,860	151,130
2020 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding (Federally Taxable): Issued $92,750 in February 2020 at 1.76% to 3.25%, due in varying installments through December 1, 2043. Interest due each June 1 and December 1.	91,715	92,750
Total Motor License Fund-Enhanced Subordinate Special Revenue Debt	1,002,231	1,006,173
Total Mainline Subordinate Debt (consisting of Subordinate Revenue Debt and Motor License Fund-Enhanced Subordinate Special Revenue Debt)	7,097,993	6,672,208
Total Mainline Senior and Subordinate Debt	13,169,163	12,415,483
Oil Franchise Tax Senior Debt		
2009 Series A, B, C Oil 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.	159,436	159,173
2013 Series A Oil 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.	16,675	23,120
2016 Series A Oil 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.	167,790	171,105
2018 Series A Oil Franchise Tax Revenue : Issued $231,385 in June 2018 at 5.00% to 5.25% due in varying installments through December 1, 2048. Interest paid each June 1 and December 1.	231,385	231,385
Total Oil Franchise Tax Senior Debt	575,286	584,783
Oil Franchise Tax Subordinate Debt		
2009 Series D, E Subordinate Oil 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.	121,980	123,045
2013 Series B Subordinate Oil 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.	18,965	24,215
2016 Series B Subordinate Oil 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.	94,465	95,925
2018 Series B Subordinate Oil Franchise Tax Revenue: Issued $210,480 in June 2018 at 5.00% to 5.25% due in varying installments through December 1, 2048. Interest paid each June 1 and December 1.	210,480	210,480
Total Oil Franchise Tax Subordinate Debt	445,890	453,665
Total Oil Franchise Tax Senior and Subordinate Debt	1,021,176	1,038,448

NOTE 7 DEBT *(continued)*

The following table is a summary of debt outstanding: *(continued)*

	May 31, 2021	May 31, 2020
	(In Thousands)	
Motor License Registration Fee Debt		
Motor License Registration Fee Bonds		
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. Partially defeased in March 2019.	$ 118,855	$ 128,400
Total Motor License Registration Fee Bonds	118,855	128,400
Motor License Registration Fee Direct Placement & Direct Borrowings		
2005 Series B, C, D: Issued $231,425 in August 2005 and remarketed in October 2015 to a direct placement; modified interest rate in July 2018 and February 2019; current interest rate is a variable rate (based SIFMA + .875%, reset weekly, paid the 15th of each month), due in varying installments through July 15, 2041.	231,425	231,425
Total Motor License Registration Fee Direct Placement & Direct Borrowings	231,425	231,425
Total Motor License Registration Fee Debt Payable	350,280	359,825
Total Debt Payable	14,540,619	13,813,756
Unamortized premium/discount	1,262,911	1,143,144
Total debt, net of unamortized premium/discount	15,803,530	14,956,900
Less: Current portion	480,170	573,880
Debt, noncurrent portion	$ 15,323,360	$ 14,383,020

As of May 31, 2021, the Commission had $706,775 in outstanding Direct Placements and Direct Borrowings. SIFMA was 0.05% on May 31, 2021.

As of May 31, 2020, the Commission had $906,775 in outstanding Direct Placements and Direct Borrowings. SIFMA was 0.14% on May 31, 2020.

The tables below summarize the total additions and total reductions in debt during fiscal years 2021 and 2020. Additions are the result of new debt issuances and bond accretion related to capital appreciation bonds. Reductions are the result of principal payments and bond refundings/defeasances.

	Balance at May 31, 2020	Additions	Reductions	Balance at May 31, 2021	Due Within One Year
			(In Thousands)		
Mainline debt					
Line of credit-PNC	$ -	$ 150,000	$ 150,000	$ -	$ -
Mainline bonds	11,740,133	1,299,285	345,605	12,693,813	450,455
Mainline direct placements and borrowings	675,350	-	200,000	475,350	-
Total Mainline debt	12,415,483	1,449,285	695,605	13,169,163	450,455
Oil Franchise Tax debt					
Oil Franchise Tax bonds	1,038,448	1,448	18,720	1,021,176	19,670
Total Oil Franchise Tax debt	1,038,448	1,448	18,720	1,021,176	19,670
Motor License Registration Fee debt					
Motor License Registration Fee bonds	128,400	-	9,545	118,855	10,045
Motor License Registration Fee direct placements and borrowings	231,425	-	-	231,425	-
Total Motor License Registration Fee debt	359,825	-	9,545	350,280	10,045
	13,813,756	1,450,733	723,870	14,540,619	480,170
Premium (discount), net	1,143,144	184,541	64,774	1,262,911	-
Total	$ 14,956,900	$ 1,635,274	$ 788,644	$ 15,803,530	$ 480,170

NOTE 7 DEBT *(continued)*

	Balance at May 31, 2019	Additions	Reductions	Balance at May 31, 2020	Due Within One Year
			(In Thousands)		
Mainline debt					
Mainline bonds	$ 10,830,131	$ 2,098,182	$ 1,188,180	$ 11,740,133	$ 345,615
Mainline direct placements and borrowings	586,850	88,500	-	675,350	200,000
Total Mainline debt	11,416,981	2,186,682	1,188,180	12,415,483	545,615
Oil Franchise Tax debt					
Oil Franchise Tax bonds	1,056,053	1,375	18,980	1,038,448	18,720
Total Oil Franchise Tax debt	1,056,053	1,375	18,980	1,038,448	18,720
Motor License Registration Fee debt					
Motor License Registration Fee bonds	137,470	-	9,070	128,400	9,545
Motor License Registration Fee direct placements and borrowings	231,425	-	-	231,425	-
Total Motor License Registration Fee debt	368,895	-	9,070	359,825	9,545
	12,841,929	2,188,057	1,216,230	13,813,756	573,880
Premium (discount), net	1,074,680	187,064	118,600	1,143,144	-
Totals	$ 13,916,609	$ 2,375,121	$ 1,334,830	$ 14,956,900	$ 573,880

Debt service requirements subsequent to May 31, 2021 related to all sections of debt are as follows:

	Bonds			Direct Borrowings and Direct Placements			Total Debt		
Year Ending May 31	Principal Maturities	Interest	Total	Principal Maturities	Interest	Total	Principal Maturities	Interest	Total
					(In Thousands)				
2022	$ 480,170	$ 607,278	$ 1,087,448	$ -	$ 7,749	$ 7,749	$ 480,170	$ 615,027	$ 1,095,197
2023	259,545	608,189	867,734	50,000	7,971	57,971	309,545	616,160	925,705
2024	469,270	595,501	1,064,771	45,000	6,713	51,713	514,270	602,214	1,116,484
2025	299,955	583,100	883,055	88,500	5,875	94,375	388,455	588,975	977,430
2026	316,660	574,862	891,522	-	4,079	4,079	316,660	578,941	895,601
2027-2031	1,824,357	2,644,937	4,469,294	-	20,402	20,402	1,824,357	2,665,339	4,489,696
2032-2036	2,667,675	2,120,663	4,788,338	91,600	18,036	109,636	2,759,275	2,138,699	4,897,974
2037-2041	3,381,355	1,489,503	4,870,858	340,880	10,779	351,659	3,722,235	1,500,282	5,222,517
2042-2046	2,800,927	741,453	3,542,380	90,795	253	91,048	2,891,722	741,706	3,633,428
2047-2051	1,319,385	149,155	1,468,540	-	-	-	1,319,385	149,155	1,468,540
2052-2056	14,545	582	15,127	-	-	-	14,545	582	15,127
	$ 13,833,844	$ 10,115,223	$ 23,949,067	$ 706,775	$ 81,857	$ 788,632	$ 14,540,619	$ 10,197,080	$ 24,737,699

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 Ten-Year Capital Plan and for refunding outstanding Mainline Senior Debt.

  In fiscal year 2021, the Commission made a draw of $150,000,000 on it's Line of Credit with PNC. The Commission also issued $817,945,000 of Mainline Senior Debt and $391,683,333 was issued to finance the costs of various capital projects, $426,261,667 was issued to refund and repay outstanding Mainline Senior Debt, and $150,000,000 was issued to repay the Line of Credit.

NOTE 7 DEBT *(continued)*

In fiscal year 2020, the Commission issued $983,775,000 of Mainline Senior Debt; $429,825,000 was issued to finance the costs of various capital projects, and $553,950,000 was issued to refund 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.

  In fiscal year 2021, the Commission issued $465,730,000 of Mainline Subordinate Debt; $465,730,000 was issued to finance the costs of Act 44 and Act 89.

  In fiscal year 2020, the Commission issued $1,187,890,000 of Mainline Subordinate Debt; $722,970,000 was issued to finance the costs of Act 44 and Act 89, and $464,920,000 was issued to refund outstanding Mainline Subordinate Debt.

- Oil 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 Franchise Tax Debt and Motor License Registration Fee Debt.

  The Commission did not issue any Oil Franchise Tax Debt or Motor License Registration Fee Debt during the fiscal years ending May 31, 2021 and 2020.

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

<u>Mainline Debt Requirements and Recent Activity</u>

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.

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

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 18-month period.

The Commission's Mainline Senior Debt (including Direct Placements and Borrowings) contains a provision that in an unresolved event of default and following a vote of the bondholders, outstanding amounts become immediately due if the Commission is unable to make payment.

In fiscal year 2013, the Commission entered into a loan agreement to borrow up to $200.0 million in four tranches of up to $50.0 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, 2020, the Commission had borrowed all $200.0 million under the agreement. In March and May 2021, the Commission repaid all $200.0 million of the EB-5 borrowings under this loan agreement. As of May 31, 2021, there are no outstanding borrowings.

In fiscal year 2017, the Commission entered into a second loan agreement to borrow, over a possible eight-year period, up to $800.0 million in 16 tranches of up to $50.0 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. The outstanding principal related to these EB-5 borrowings was $183.5 million and $183.5 million as of May 31, 2021 and 2020, respectively.

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

In June 2020, the Commission secured a $200.0 million revolving line of credit from PNC Bank, N. A. with a one-year term. The Commission was authorized to draw this money for general working capital purposes, funding/reimbursing necessary reserves and the payment of debt service on Bonds under the Senior Indenture. In fiscal year 2021, the Commission utilized the Line of Credit to redeem certain outstanding bonds of the Commission. Subsequently, these draws were repaid with the proceeds from the Senior Bonds as discussed in later paragraphs. As of May 31, 2021, there was no outstanding principal related to this Line of Credit.

Under the Commonwealth's Act 44 of 2007, the Commission may issue up to $5.0 billion of Special Revenue Bonds guaranteed by the Commonwealth'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 $5.0 billion; no more than $600.0 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'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's Act 89 of 2013, Special Revenue Bonds may not be issued by the Commission to fund any portion of its annual payment obligation to PennDOT after July 1, 2014, although Special Revenue Refunding Bonds may be issued. The outstanding principal related to these Special Revenue Bonds was $1,002.2 million and $1,006.2 million as of May 31, 2021 and 2020, respectively.

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

The commitment of the Commonwealth'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.

In June 2019, the Commission issued $139,815,000 of 2019 Second Series Senior Revenue Bonds at a variable rate with a maturity date of December 1, 2038. The 2019 Second Series Senior Revenue Bonds were issued to refund a portion of the 2013 Series B Senior Revenue Bonds ($100,000,000), 2014 Series B-1 Senior Revenue Bonds ($39,150,000), and for paying the costs of issuing the 2019 Second Series Senior Revenue Bonds.

In June 2019, the Commission issued $722,970,000 of 2019 Series A Subordinate Revenue Bonds at a fixed rate with a maturity date of December 1, 2049. The 2019 Series A Subordinate Revenue Bonds were issued primarily to finance a portion of the cost of making payments to PennDOT in accordance with Act 44 and Act 89 and for paying the costs of issuing the 2019 Series A Subordinate Revenue Bonds.

In August 2019, the Commission issued $341,325,000 of 2019 Series A Senior Revenue Bonds at a fixed rate with a maturity date of December 1, 2049. The 2019 Series A Senior Revenue Bonds were issued to finance the cost of various capital expenditures set forth in the Commission's Ten-Year Capital Plan, including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and/or rehabilitation of certain interchanges and for paying the costs of issuing the 2019 Series A Senior Revenue Bonds.

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

In September 2019, the Commission issued $179,815,000 of the 2019 Forward Delivery Series Senior Revenue Bonds at a fixed rate with a maturity date of December 1, 2025. The 2019 Forward Delivery Series Senior Revenue Bonds were issued primarily for the current refunding of the 2009 Series B Senior Revenue Bonds ($190,080,000) and for paying the costs of issuing the 2020 Forward Delivery Series Senior Revenue Bonds. The current refunding of 2009 Series B Senior Revenue Bonds allowed the Commission to reduce its debt service by approximately $14.8 million. The transaction resulted in an economic gain of $10.7 million.

In November 2019, the Commission issued, as a Direct Borrowing, $52,000,000 2019 EB-5 Loan (Third Tranche) at a fixed rate with a maturity date of November 5, 2024. 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 and for paying the costs of issuing the 2019 EB-5 Loan.

In November 2019, the Commission issued $86,730,000 of 2019 First Series Subordinate Revenue Refunding Bonds (Federally Taxable) at a fixed rate with a maturity date of December 1, 2042. The 2019 First Series Subordinate Revenue Refunding Bonds were issued to provide funds for refunding a portion of the Commission's 2010 Series C-1 Subordinate Revenue Bonds ($1,540,000), 2011 Series B Subordinate Revenue Bonds ($40,130,000), 2012 Series A Subordinate Revenue Bonds ($25,910,000), 2012 Series B Subordinate Revenue Bonds ($12,685,000) and for paying the costs of issuing the 2019 First Series Subordinate Revenue Refunding Bonds. The advanced refunding of 2010 Series C-1 Subordinate Revenue Bonds, 2011 Series B Subordinate Revenue Bonds, 2012 Series A Subordinate Revenue Bonds, 2012 Series B Subordinate Revenue Bonds, and 2013 Series A Subordinate Revenue Bonds allowed the Commission to reduce its debt service by approximately $12 million. The transaction resulted in an economic gain of $8.4 million.

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

In November 2019, the Commission issued $151,130,000 of 2019 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds (Federally Taxable) at a fixed rate with a maturity date of December 1, 2043. The 2019 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds were issued to provide funds for refunding a portion of the Commission's 2010 Series B-1 Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($13,780,000), 2011 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($23,340,000), 2012 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($28,610,000), 2012 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($35,270,000), and 2013 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($39,765,000) and for paying the costs of issuing the 2019 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds. The advanced refunding of 2010 Series B-1 Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2011 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2012 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2012 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds, and 2013 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds allowed the Commission to reduce its debt service by approximately $28.1 million. The transaction resulted in an economic gain of $16.7 million.

In January 2020, the Commission issued, as a Direct Borrowing, $36,500,000 2020 EB-5 Loan (Fourth Tranche) at a fixed rate with a maturity date of January 21, 2025. 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 and for paying the costs of issuing the 2020 EB-5 Loan.

In January 2020, the Commission issued $234,320,000 of 2020 First Series Senior Revenue Bonds (Federally Taxable) at a fixed rate with a maturity date of December 1, 2043. The 2020 First Series Senior Revenue Bonds were issued to refund a portion of the 2012 Series A Senior Revenue Bonds ($99,380,000), 2013 Series C Senior Revenue Bonds ($115,580,000), and for paying the costs of issuing the 2020 First Series Senior Revenue Bonds. The advanced refunding 2012 Series A Senior Revenue Bonds and 2013 Series C Senior Revenue Bonds allowed the Commission to reduce its debt service by approximately $44.5 million. The transaction resulted in an economic gain of $25.7 million.

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

In February 2020, the Commission issued $134,310,000 of 2020 First Series Subordinate Revenue Refunding Bonds (Federally Taxable) at a fixed rate with a maturity date of December 1, 2043. The 2020 First Series Subordinate Revenue Refunding Bonds were issued to provide funds for refunding a portion of the Commission's 2010 Series B-1 Subordinate Revenue Bonds ($11,285,000), 2011 Series B Subordinate Revenue Bonds ($3,820,000), 2012 Series A Subordinate Revenue Bonds ($29,555,000), 2012 Series B Subordinate Revenue Bonds ($29,240,000), 2013 Series A Subordinate Revenue Bonds ($28,555,000), 2013 Series B-1 Subordinate Revenue Bonds ($18,200,000), 2013 Series B-3 Subordinate Revenue Bonds ($10,215,000) and for paying the costs of issuing the 2020 First Series Subordinate Revenue Refunding Bonds. The current refunding of 2010 Series B-1 Subordinate Revenue Bonds and the advanced refunding of 2011 Series B Subordinate Revenue Bonds, 2012 Series A Subordinate Revenue Bonds, 2012 Series B Subordinate Revenue Bonds, 2013 Series A Subordinate Revenue Bonds, 2013 Series B-1 Subordinate Revenue Bonds, and 2013 Series B-3 Subordinate Revenue Bonds allowed the Commission to reduce its debt service by approximately $32.4 million. The transaction resulted in an economic gain of $13.8 million.

In February 2020, the Commission issued $92,750,000 of 2020 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds (Federally Taxable) at a fixed rate with a maturity of December 1, 2043. The 2020 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds were issued to provide funds for refunding a portion of the Commission's 2010 Series B-1 Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($8,790,000), 2011 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($25,000), 2012 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($1,805,000), 2012 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($15,230,000), 2013 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($20,330,000), 2013 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds ($38,080,000) and for paying the costs of issuing the 2020 First Series Motor License Fund-Enhanced Subordinate Revenue Refunding Bonds. The advanced refunding of 2010 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2011 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2012 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2012 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2013 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds and 2013 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds allowed the Commission to reduce its debt service by approximately $21.7 million. The transaction resulted in an economic gain of $13.7 million.

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

In May 2020, the Commission cash defeased the June 1, 2020 maturity of the Commission's 2008 Series B Subordinate Revenue Bonds ($7,595,000), 2016 First Series Subordinate Revenue Refunding Bonds ($42,020,000), and 2017 Series B-2 Subordinate Revenue Bonds ($210,000). This cash defeasance of the Subordinate Revenue Bonds allowed the Commission to reduce its debt service by approximately $51.2 million. The transaction resulted in an economic loss of $0.1 million, which essentially represented transaction fees incurred as a result of the cash defeasance.

In June 2020, the Commission issued $225,820,000 of 2020 Series Senior Revenue Bonds at a variable rate with a maturity date of December 1, 2039. The 2020 Series Senior Revenue Bonds were issued to refund a portion of the 2013 Series B Senior Revenue Bonds ($100,000,000), 2014 Series B-1 Senior Revenue Bonds ($100,000,000), 2018 Series A-1 Senior Revenue Bonds ($25,000,000) and for paying the costs of issuing the 2020 Series Senior Revenue Bonds.

In August 2020, the Commission issued $100,500,000 of 2020 Series A Senior Revenue Bonds at a variable rate with a maturity date of December 1, 2050. The 2020 Series A Senior Revenue Bonds were issued primarily to finance the cost of various capital expenditures set forth in the Commission's Ten-Year Capital Plan, including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and/or rehabilitation of certain interchanges and for paying the costs of issuing the 2020 Series A Senior Revenue Bonds.

In October 2020, the Commission issued $241,625,000 of 2020 Series B Senior Revenue Bonds at a fixed rate with a maturity date of December 1, 2050. The 2020 Series B Senior Revenue Bonds were primarily issued to finance the cost of various capital expenditures set forth in the Commission's Ten-Year Capital Plan, including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and/or rehabilitation of certain interchanges and for paying the costs of issuing the 2020 Series B Senior Revenue Bonds.

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

In November 2020, the Commission cash defeased the December 1, 2020 maturity of the Commission's 2011 Series A Senior Revenue Bonds ($15,925,000), 2012 Series A Senior Revenue Bonds ($4,310,000), 2013 Series C Senior Revenue Bonds ($1,500,000), 2014 Series A Senior Revenue Bonds ($455,000), 2014 Series C Senior Revenue Bonds ($2,275,000), 2015 Series A-1 Senior Revenue Bonds ($490,000), 2015 Series B Senior Revenue Bonds ($1,295,000), 2016 Series A-1 Senior Revenue Bonds ($520,000), 2017 Series A-1 Senior Revenue Bonds ($6,210,000), 2019 Series A Senior Revenue Bonds ($5,405,000), and 2019 Forward Delivery Senior Revenue Bonds ($26,230,000). This cash defeasance of the Senior Revenue Bonds allowed the Commission to reduce its debt service by approximately $66.2 million. The transaction resulted in an economic loss $20,000, which essentially represented transaction fees incurred as a result of the cash defeasance.

In November 2020, the Commission cash defeased the December 1, 2020 maturity of the Commission's 2010 Series C-3 Subordinate Revenue Bonds ($3,045,115 with an accreted value of $4,645,085), 2011 Series B Subordinate Revenue Bonds ($3,735,000), 2012 Series A Subordinate Revenue Bonds ($3,550,000), 2012 Series B Subordinate Revenue Bonds ($3,675,000), 2013 Series A-1 Subordinate Revenue Bonds ($1,445,000), 2013 Series B-1 Subordinate Revenue Bonds ($1,805,000), 2014 Series A-1 Subordinate Revenue Bonds ($2,680,000), 2015 Series B Subordinate Revenue Bonds ($405,000), 2016 Series A-1 Subordinate Revenue Bonds ($380,000), 2016 Third Series Subordinate Revenue Taxable Refunding Bonds ($8,110,000), 2019 First Series Subordinate Revenue Taxable Refunding Bonds ($205,000), and 2020 First Series Subordinate Revenue Taxable Refunding Bonds ($11,845,000). This cash defeasance of the aforementioned Subordinate Revenue Bonds allowed the Commission to reduce its debt service by approximately $43.1 million. The transaction resulted in an economic loss of $20,000, which essentially represented transaction fees incurred as a result of the cash defeasance.

In January 2021, the Commission issued $465,730,000 of 2021 Series A Subordinate Revenue Bonds at a fixed rate with a maturity date of December 1, 2050. The 2021 Series A Subordinate Revenue Bonds were primarily issued to finance a portion of the costs of making payments to PennDOT in accordance with Act 44 and Act 89 and for paying the costs of issuing the 2021 Series A Subordinate Revenue Bonds.

In March 2021, the Commission made a draw of $150,000,000 on the PNC Bank revolving Line of Credit at a variable rate with a maturity date of June 2, 2021. The draw was utilized to provide funds to repay the 2016 EB-5 Loan 1^{st}-3^{rd} Tranches ($150,000,000).

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

In April 2021, the Commission issued $250,000,000 of 2021 Series A Senior Revenue Bonds at a fixed rate with a maturity date of December 1, 2051. The 2021 Series A Senior Revenue Bonds were issued primarily to repay outstanding amounts under the Commission's revolving Line of Credit with PNC Bank ($150,000,000), repay the 2016 EB-5 Loan Fourth Tranche ($50,000,000), finance the cost of various capital expenditures set forth in the Commission's Ten-Year Capital Plan, including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and/or rehabilitation of certain interchanges and for paying the costs of issuing the 2021 Series A Senior Revenue Bonds.

Debt service requirements subsequent to May 31, 2021 related to the Mainline debt are as follows:

	Bonds			Direct Borrowings and Direct Placements			Total Debt		
Year Ending May 31	Principal Maturities	Interest	Total	Principal Maturities	Interest *(In Thousands)*	Total	Principal Maturities	Interest	Total
2022	$ 450,455	$ 548,814	$ 999,269	$ -	$ 5,567	$ 5,567	$ 450,455	$ 554,381	$ 1,004,836
2023	226,990	551,219	778,209	50,000	5,789	55,789	276,990	557,008	833,998
2024	435,055	540,181	975,236	45,000	4,525	49,525	480,055	544,706	1,024,761
2025	263,515	529,597	793,112	88,500	3,693	92,193	352,015	533,290	885,305
2026	277,480	523,225	800,705	-	1,897	1,897	277,480	525,122	802,602
2027-2031	1,612,312	2,417,931	4,030,243	-	9,485	9,485	1,612,312	2,427,416	4,039,728
2032-2036	2,463,385	1,948,870	4,412,255	-	9,488	9,488	2,463,385	1,958,358	4,421,743
2037-2041	3,196,554	1,330,794	4,527,348	226,970	7,134	234,104	3,423,524	1,337,928	4,761,452
2042-2046	2,559,752	673,037	3,232,789	64,880	212	65,092	2,624,632	673,249	3,297,881
2047-2051	1,193,770	136,221	1,329,991	-	-	-	1,193,770	136,221	1,329,991
2052-2056	14,545	582	15,127	-	-	-	14,545	582	15,127
	$ 12,693,813	$ 9,200,471	$ 21,894,284	$ 475,350	$ 47,790	$ 523,140	$ 13,169,163	$ 9,248,261	$ 22,417,424

Oil Franchise Tax Debt Requirements and Recent Activity

The Oil 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'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.

NOTE 7 DEBT *(continued)*

Oil Franchise Tax Debt Requirements and Recent Activity *(continued)*

The Commission's Oil Franchise Tax Debt contains a provision that in an unresolved event of default and following a vote of the bondholders, outstanding amounts become immediately due if the Commission is unable to make payment.

Debt service requirements subsequent to May 31, 2021 related to Oil Franchise Tax debt are as follows:

	Bonds			Direct Borrowings and Direct Placements			Total Debt		
Year Ending May 31	Principal Maturities	Interest	Total	Principal Maturities	Interest (In Thousands)	Total	Principal Maturities	Interest	Total
2022	$ 19,670	$ 52,488	$ 72,158	$ -	$ -	$ -	$ 19,670	$ 52,488	$ 72,158
2023	21,980	51,535	73,515	-	-	-	21,980	51,535	73,515
2024	23,090	50,455	73,545	-	-	-	23,090	50,455	73,545
2025	24,725	49,237	73,962	-	-	-	24,725	49,237	73,962
2026	26,850	48,002	74,852	-	-	-	26,850	48,002	74,852
2027-2031	148,980	219,287	368,267	-	-	-	148,980	219,287	368,267
2032-2036	204,290	171,793	376,083	-	-	-	204,290	171,793	376,083
2037-2041	184,801	158,709	343,510	-	-	-	184,801	158,709	343,510
2042-2046	241,175	68,416	309,591	-	-	-	241,175	68,416	309,591
2047-2051	125,615	12,934	138,549	-	-	-	125,615	12,934	138,549
	$ 1,021,176	$ 882,856	$ 1,904,032	$ -	$ -	$ -	$ 1,021,176	$ 882,856	$ 1,904,032

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 Motor License Registration Fee Revenue Bonds are secured by a pledge and assignment by the Commission to the Trustee of any receipts, revenues and other moneys received by the Trustee on or after the date of the Indenture from the Commission's allocation of Act 3 revenues and any income earned on any fund or account established pursuant to the Indenture.

The Commission's Motor License Registration Fee Debt (including Direct Placements and Borrowings) contains a provision that in an unresolved event of default and following a vote of the bondholders, outstanding amounts become immediately due if the Commission is unable to make payment.

NOTE 7 DEBT *(continued)*

Motor License Registration Fee Debt Requirements and Recent Activity *(continued)*

Debt service requirements subsequent to May 31, 2021 related to Motor License Registration Fee debt are as follows:

Year Ending May 31	Bonds: Principal Maturities	Bonds: Interest	Bonds: Total	Direct Borrowings and Direct Placements: Principal Maturities	Direct Borrowings and Direct Placements: Interest	Direct Borrowings and Direct Placements: Total	Total Debt: Principal Maturities	Total Debt: Interest	Total Debt: Total
					(In Thousands)				
2022	$ 10,045	$ 5,976	$ 16,021	$ -	$ 2,182	$ 2,182	$ 10,045	$ 8,158	$ 18,203
2023	10,575	5,435	16,010	-	2,182	2,182	10,575	7,617	18,192
2024	11,125	4,865	15,990	-	2,188	2,188	11,125	7,053	18,178
2025	11,715	4,266	15,981	-	2,182	2,182	11,715	6,448	18,163
2026	12,330	3,635	15,965	-	2,182	2,182	12,330	5,817	18,147
2027-2031	63,065	7,719	70,784	-	10,917	10,917	63,065	18,636	81,701
2032-2036	-	-	-	91,600	8,548	100,148	91,600	8,548	100,148
2037-2041	-	-	-	113,910	3,645	117,555	113,910	3,645	117,555
2042-2046	-	-	-	25,915	41	25,956	25,915	41	25,956
	$ 118,855	$ 31,896	$ 150,751	$ 231,425	$ 34,067	$ 265,492	$ 350,280	$ 65,963	$ 416,243

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. As of May 31, 2021 and 2020, the Commission had $1,313.1 million and $2,199.2 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 $0.1 million and $0.2 million for the fiscal years ended May 31, 2021 and 2020, respectively.

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, 2021, assuming current interest rates remain the same for the term of the agreements, are as follows:

(In Thousands)

Year Ending	Bonds				Direct Borrowings and Direct Placements				Total Debt			
May 31	Principal Maturities	Interest	Hedging	Total	Principal Maturities	Interest	Hedging	Total	Principal Maturities	Interest	Hedging	Total
2022	$ 261,970	$ 2,585	$ 23,132	$ 287,687	$ -	$ 4,079	$ 16,669	$ 20,748	$ 261,970	$ 6,664	$ 39,801	$ 308,435
2023	2,320	1,521	23,088	26,929	-	4,079	14,666	18,745	2,320	5,600	37,754	45,674
2024	191,325	872	23,042	215,239	-	4,088	14,665	18,753	191,325	4,960	37,707	233,992
2025	2,440	219	22,564	25,223	-	4,076	14,666	18,742	2,440	4,295	37,230	43,965
2026	2,505	219	21,631	24,355	-	4,079	14,667	18,746	2,505	4,298	36,298	43,101
2027-2031	13,520	1,078	85,686	100,284	-	20,402	73,330	93,732	13,520	21,480	159,016	194,016
2032-2036	15,360	1,050	44,817	61,227	91,600	18,036	62,885	172,521	106,960	19,086	107,702	233,748
2037-2041	383,070	550	11,750	395,370	340,880	10,779	35,063	386,722	723,950	11,329	46,813	782,092
2042-2046	19,800	65	3,168	23,033	90,795	253	741	91,789	110,595	318	3,909	114,822
2047-2051	22,480	23	1,115	23,618	-	-	-	-	22,480	23	1,115	23,618
	$ 914,790	$ 8,182	$ 259,993	$ 1,182,965	$ 523,275	$ 69,871	$ 247,352	$ 840,498	$ 1,438,065	$ 78,053	$ 507,345	$ 2,023,463

Mainline net swap payments and related debt service requirements subsequent to May 31, 2021 for the 2014 Series B-1 Senior Revenue Bonds, 2017 First Series Subordinate Revenue Refunding Bonds (Direct Placement), 2018 Series A-1 Senior Revenue Bonds, 2018 Series B Senior, 2019 Second Series Senior revenue Bonds, 2020 Second Series Senior Revenue Bonds and 2021 Series A Senior Revenue Bonds are as follows:

(In Thousands)

Year Ending	Bonds				Direct Borrowings and Direct Placements				Total Debt			
May 31	Principal Maturities	Interest	Hedging	Total	Principal Maturities	Interest	Hedging	Total	Principal Maturities	Interest	Hedging	Total
2022	$ 261,970	$ 2,585	$ 23,132	$ 287,687	$ -	$ 1,897	$ 7,061	$ 8,958	$ 261,970	$ 4,482	$ 30,193	$ 296,645
2023	2,320	1,521	23,088	26,929	-	1,897	5,058	6,955	2,320	3,418	28,146	33,884
2024	191,325	872	23,042	215,239	-	1,900	5,058	6,958	191,325	2,772	28,100	222,197
2025	2,440	219	22,564	25,223	-	1,894	5,058	6,952	2,440	2,113	27,622	32,175
2026	2,505	219	21,631	24,355	-	1,897	5,059	6,956	2,505	2,116	26,690	31,311
2027-2031	13,520	1,078	85,686	100,284	-	9,485	25,292	34,777	13,520	10,563	110,978	135,061
2032-2036	15,360	1,050	44,817	61,227	-	9,488	25,291	34,779	15,360	10,538	70,108	96,006
2037-2041	383,070	550	11,750	395,370	226,970	7,134	19,025	253,129	610,040	7,684	30,775	648,499
2042-2046	19,800	65	3,168	23,033	64,880	212	562	65,654	84,680	277	3,730	88,687
2047-2051	22,480	23	1,115	23,618	-	-	-	-	22,480	23	1,115	23,618
	$ 914,790	$ 8,182	$ 259,993	$ 1,182,965	$ 291,850	$ 35,804	$ 97,464	$ 425,118	$ 1,206,640	$ 43,986	$ 357,457	$ 1,608,083

NOTE 7 DEBT *(continued)*

Swap Payments and Associated Debt *(continued)*

Motor License net swap payments and related debt service requirements subsequent to May 31, 2021 for the 2005 Series B, C, and D Motor License Registration Fee Bonds (Direct Placement) are as follows:

	Bonds				Direct Borrowings and Direct Placements				Total Debt			
Year Ending May 31	Principal Maturities	Interest	Hedging	Total	Principal Maturities	Interest	Hedging	Total	Principal Maturities	Interest	Hedging	Total
						(In Thousands)						
2022	$ -	$ -	$ -	$ -	$ -	$ 2,182	$ 9,608	$ 11,790	$ -	$ 2,182	$ 9,608	$ 11,790
2023	-	-	-	-	-	2,182	9,608	11,790	-	2,182	9,608	11,790
2024	-	-	-	-	-	2,188	9,607	11,795	-	2,188	9,607	11,795
2025	-	-	-	-	-	2,182	9,608	11,790	-	2,182	9,608	11,790
2026	-	-	-	-	-	2,182	9,608	11,790	-	2,182	9,608	11,790
2027-2031	-	-	-	-	-	10,917	48,038	58,956	-	10,918	48,038	58,956
2032-2036	-	-	-	-	91,600	8,548	37,594	137,742	91,600	8,548	37,594	137,742
2037-2041	-	-	-	-	113,910	3,645	16,038	133,592	113,910	3,644	16,038	133,592
2042-2046	-	-	-	-	25,915	41	179	26,135	25,915	41	179	26,135
	$ -	$ -	$ -	$ -	$ 231,425	$ 34,067	$ 149,888	$ 415,380	$ 231,425	$ 34,067	$ 149,888	$ 415,380

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

NOTE 8 RETIREMENT BENEFITS

General Information about the Pension Plan

Plan Description

Pennsylvania State Employees' Retirement System (SERS) is the administrator of two mandatory-participation retirement plans: the Defined Benefit Plan and the Defined Contribution Plan (investment plan). The Defined Benefit Plan is a cost-sharing multiple-employer plan, for which the assets are held in the State Employees' Retirement Fund (pension fund). The investment plan was established by Act 2017-5; the law also established two new side-by-side hybrid defined benefit/defined contribution options and a new defined contribution only option. Assets in the investment plan are held in individual member investment accounts. Both the pension fund and investment plan were established to provide retirement benefits for employees of state government and certain independent agencies. Membership in SERS is mandatory for most Commission (and other state) employees. Additionally, most employees, who first enter SERS membership on or after January 1, 2019 are required to participate in one of the new investment plan options that were established under Act 2017-5 and became effective on this date. Article II of the Commonwealth's constitution assigns the authority to establish and amend the benefit provision of the plan to the General Assembly. Separately issued financial statements for SERS can be obtained at www.sers.pa.gov.

NOTE 8 RETIREMENT BENEFITS *(continued)*

General Information about the Pension Plan *(continued)*

Benefits Provided

SERS provides retirement, death, and disability benefits. Member retirement benefits of the pension plan are determined by taking years of credited service multiplied by final average salary multiplied by years of service multiplied by 2.0% or 2.5% depending on the class of service multiplier. Commission employees participate in one of the following class of service categories: Class A, Class AA, Class A3, Class A4, Class A5 or Class A6. Class A5 and Class A6 became effective January 1, 2019. These classes are considered part of the Hybrid Plan as they include participation in both the pension fund and the investment plan. Employees are also eligible to elect participation solely in the investment plan, under the 401(a) DC class of service. 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 that all SERS participating employers make contributions to the pension fund on behalf of all active members and annuitants necessary to fund the liabilities and provide the annuity reserves required to pay benefits. Section 5806 of the SERC (71 Pa. C.S. §5806) requires that all SERS-participating employers make contributions to the investment plan that shall be credited to the active participant's individual investment account. SERS funding policy, as set by the State Employees' Retirement Board (SERB), provides for periodic active member contributions at statutory rates for both the pension fund and investment plan. The SERS funding policy also provides for periodic employer 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. The Commission's retirement contribution, as a percentage of covered payroll, by class is as follows:

Year Ended June 30	Class A	Class AA	Class A3	Class A4	Class A5*	Class A6*	401(a) DC*
2021	29.48%	36.84%	25.47%	25.47%	19.59%	19.59%	19.56%
2020	28.84%	36.04%	24.92%	24.92%	19.18%	19.18%	19.12%
2019	27.71%	34.63%	23.94%	23.94%	18.42%	18.42%	18.39%

* New plans became effective on January 1, 2019.

NOTE 8 RETIREMENT BENEFITS *(continued)*

General Information about the Pension Plan *(continued)*

Contributions (continued)

Contributions to the pension fund from the Commission were $30.8 million and $37.7 million for the fiscal years ended May 31, 2021 and 2020, respectively. Contributions to the investment plan from the Commission were $85,900 and $97,900 for the fiscal years ended May 31, 2021 and 2020, respectively. Forfeitures related to the investment plan were $600 and $5,000 for the fiscal years ended May 31, 2021 and 2020, respectively. With the passing of Act 2020-94, forfeitures after July 1, 2020 are used to offset future administrative costs of the investment plan.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of May 31, 2021, the Commission reported a liability of $288.5 million for its proportionate share of the net pension liability of the pension fund. The net pension liability was measured as of December 31, 2020, 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 2021-2022, from the December 31, 2020 funding valuation, to the expected funding payroll for the allocation of the 2020 amounts. As of December 31, 2020, the Commission's proportionate share of the net pension liability was 1.58%, which was a decrease of 0.23% from its proportion measured as of December 31, 2019.

For the fiscal year ended May 31, 2021, the Commission recognized pension expense of $18.3 million related to the pension fund. For the fiscal year ended May 31, 2021, the Commission recognized pension expense of $155,000 related to the investment plan.

NOTE 8 RETIREMENT BENEFITS *(continued)*

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions *(continued)*

As of May 31, 2021, 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
	(In Thousands)	
Differences between expected and actual experience	$ 2,708	$ 324
Net difference between projected and actual investment earnings on pension plan investments	-	36,908
Changes of assumptions	32,077	-
Differences between employer contributions and proportionate share of contributions	1,197	28
Changes in proportion	360	46,303
Commission contributions subsequent to measurement date	14,334	-
	$ 50,676	$ 83,563

The $14.3 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 fiscal year ending May 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as net decreases in pension expense as follows:

Year Ending May 31	
	(in Thousands)
2022	$ (14,972)
2023	(7,302)
2024	(17,398)
2025	(7,161)
2026	(388)

NOTE 8 RETIREMENT BENEFITS *(continued)*

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions *(continued)*

As of May 31, 2020, the Commission reported a liability of $329.2 million for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2019, 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 2020-2021, from the December 31, 2019 funding valuation, to the expected funding payroll for the allocation of the 2019 amounts. As of December 31, 2019, the Commission's proportionate share of the net pension liability was 1.81%, which was a decrease of 0.04% from its proportion measured as of December 31, 2018.

For the fiscal year ended May 31, 2020, the Commission recognized pension expense of $40.9 million related to the pension fund. For the fiscal year ended May 31, 2020, the Commission recognized pension expense of $98,100 related to the investment plan.

As of May 31, 2020, 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
	(In Thousands)	
Differences between expected and actual experience	$ 4,105	$ 2,230
Net difference between projected and actual investment earnings on pension plan investments	-	23,477
Changes of assumptions	12,685	-
Differences between employer contributions and proportionate share of contributions	635	177
Changes in proportion	2,160	16,608
Commission contributions subsequent to measurement date	18,252	-
	$ 37,837	$ 42,492

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 actuary, under oversight of the Pennsylvania State Employees' Retirement Board (SERB), 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). The *19th Investigation of Actuarial Experience* study for the period 2015 – 2019 was released and approved by the SERB in July 2020. The study recommended decreasing the investment rate of return and inflation assumptions to 7.00% and 2.5%, respectively, for 2020 from 7.125% and 2.6%, respectively, for 2019. The study can be viewed at www.SERS.pa.gov.

The actuary and SERB review the investment rate of return annually, in addition to the normal five-year experience study cycle, in recognition of changing market environments to ensure this assumption remains reasonable with each actuarial valuation every year. In June 2019, the SERB approved a reduction in the investment rate of return to 7.125% for the December 31, 2019 valuation from 7.25% for the December 31, 2018 valuation.

The following methods and assumptions were used in the actuarial valuation for the December 31, 2020 and 2019 measurement dates:

	December 31, 2020	**December 31, 2019**
Actuarial cost method	Entry age	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	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	7.00% net of manager fees, including inflation	7.125% net of manager fees, including inflation
Projected salary increases	Average of 4.60% with range of 3.30% - 6.95%, including inflation	Average of 5.60% with range of 3.70% - 8.90%, including inflation
Asset valuation method	Fair (market) value	Fair (market) value
Inflation	2.50%	2.60%
Mortality rate	Projected PubG-2010 and PubNS-2010 Mortality Tables adjusted for actual plan experience and future improvement	Projected RP-2000 Mortality Tables adjusted for actual plan experience and future improvement
Cost-of-living adjustments (COLA)	Ad hoc	Ad hoc

NOTE 8 RETIREMENT BENEFITS *(continued)*

Actuarial Methods and Assumptions *(continued)*

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 geometric real rates of return for each major asset class included in the pension plan's current and target asset allocation as of December 31, 2020 and 2019 are summarized in the following tables:

As of December 31, 2020:

Asset Class	Target Allocation	Long-term Expected Rate of Return
Private Equity	14.00%	6.25%
Private Credit	4.00%	4.25%
Real Estate	8.00%	5.60%
U.S. Equity	25.00%	4.90%
International Developed Markets Equity	13.00%	4.75%
Emerging Markets Equity	4.00%	5.00%
Fixed Income - Core	22.00%	1.50%
Fixed Income - Opportunistic	4.00%	3.00%
Inflation Protection (TIPS)	4.00%	1.50%
Cash	2.00%	0.25%
Total	100.00%	

As of December 31, 2019:

Asset Class	Target Allocation	Long-term Expected Rate of Return
Private Equity	16.00%	7.25%
Global Public Equity	48.00%	5.15%
Real Estate	12.00%	5.26%
Multi-Strategy	10.00%	4.44%
Fixed Income	11.00%	1.26%
Cash	3.00%	-
Total	100.00%	

NOTE 8 RETIREMENT BENEFITS *(continued)*

Discount Rate

The discount rate used to measure the total pension liability was reduced to 7.00% as of December 31, 2020 from 7.125% as of December 31, 2019. The projection of cash flows used to determine the discount rate assumed that employee contributions from pension plan members will be made at the current contribution rate and that contributions from participating employers will be made at actuarially determined rates as set by statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current pension plan members. Therefore, the long-term expected rate of return on pension plan 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 schedules presents the Commission's proportionate share of the 2020 and 2019 net pension liability calculated using the discount rate of 7.00% and 7.125%, 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:

	1.0% Decrease to 6.0%	Current Discount Rate of 7.0%	1.0% Increase to 8.0%
		(in Thousands)	
Commission's share of the net pension liability as of the 12/31/20 measurement date	$ 383,043	$ 288,472	$ 208,526

	1.0% Decrease to 6.125%	Current Discount Rate of 7.125%	1.0% Increase to 8.125%
		(in Thousands)	
Commission's share of the net pension liability as of the 12/31/19 measurement date	$ 418,288	$ 329,189	$ 252,909

NOTE 8 RETIREMENT BENEFITS *(continued)*

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial statements for SERS.

Payables to the Pension Plan

As of May 31, 2021 and 2020, the Commission reported a $6.5 million and $18.3 million liability, respectively, within 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. As of May 31, 2021 and 2020, $5,900 and 7,800, respectively, of the amount payable to SERS was allocated to the investment plan with the remainder allocated to the pension fund.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Litigation

Owner Operator Independent Drivers Association, Inc. v. Pennsylvania Turnpike Commission

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 Defendants). The litigation was 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 alleged that Act 44, as amended by Act 89 (Act 44/89), violated 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 System and that the Commission expends toll revenues for purposes other than the operation and maintenance of the Turnpike System.

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Litigation *(continued)*

Owner Operator Independent Drivers Association, Inc. v. Pennsylvania Turnpike Commission (continued)

The Lawsuit sought, among other things, the following injunctive remedies: (1) 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 (2) 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 sought certain monetary damages including a refund of a portion of certain tolls allegedly imposed upon the Trucking Plaintiffs' use of the Turnpike System in excess of what was reasonably necessary to pay for the cost of operating and maintaining the Turnpike System, together with any legally applicable interest and other compensation.

The Commission along with all of the other Defendants vigorously defended Act 44/89 and the propriety of the Commission's imposition and use of the Turnpike toll revenues in court.

On April 4, 2019, Judge Yvette Kane of the United States District Court for the Middle District of Pennsylvania (the District Court) issued a decision in which the District Court determined that tolls assessed by the Commission do not unduly burden interstate commerce or interfere with the constitutional right to travel and the Trucking Plaintiffs' complaint failed to state a claim upon which relief may be granted for violations of the dormant Commerce Clause or the constitutional right to travel. Accordingly, the District Court granted the Defendants' motions to dismiss the Trucking Plaintiffs' complaint. On August 13, 2019, the United States Court of Appeals for the Third Circuit affirmed the decision of the District Court, and subsequently denied the Trucking Plaintiffs' petition both for a panel rehearing and an en banc rehearing.

On December 11, 2019, the Trucking Plaintiffs filed a petition for a writ of certiorari in the United States Supreme Court (the Supreme Court) asking the Supreme Court to review the decision of the Third Circuit. On January 27, 2020, the Supreme Court denied the Trucking Plaintiffs' petition for a writ of certiorari asking the Supreme Court to review the decision of the Third Circuit. *Owner Operator Independent Drivers Association, Inc. et al. v. Pennsylvania Turnpike Commission et al.*, cert. denied (U.S. Jan 27, 2020) (No. 19-762). This denial by the Supreme Court left undisturbed the favorable decision of the Third Circuit. The Trucking Plaintiffs did not file a petition for rehearing, as permitted by the Supreme Court rules, and the period to file such a petition expired on February 21, 2020. Thus, the class action lawsuit has concluded favorably to the Commission.

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Litigation *(continued)*

Julie E. Thomas v. TransCore, LP & Pennsylvania Turnpike Commission

On April 28, 2021, Julie Thomas (the Plaintiff), an E-ZPass customer and frequent traveler on the System, filed a putative class action lawsuit against the Commission, and TransCore, L.P. (TransCore), as the vendor that provides, operates, and maintains the Electronic Toll Collection Customer Service Center and Violations Processing Center.

The Commission and TransCore were served with the complaint on May 24, 2021. The complaint centers mostly on video tolls (V-Tolls). A V-Toll is an E-ZPass charge that is assessed when, for any reason, the customer's E-ZPass transponder is not read on both the customer's entry and exit from the System, resulting in a toll assessment based upon a video snapshot of the customer's license plate.

The Plaintiff asserts claims for conversion and unjust enrichment against the Commission, as well as additional claims against TransCore. The Plaintiff principally alleges that (i) the V-Tolls charged to her account are excessive and amount to disproportionate fines and penalties, (ii) refunds should be made to the customer's bank accounts, not the E-ZPass account, and (iii) the Commission and TransCore failed to notify E-ZPass customers that newly installed tolling equipment is incompatible with older E-ZPass transponders; resulting in more V-Tolls and overall higher tolls. Based on these allegations, the Plaintiff seeks, among other things, compensatory and punitive damages, as well as attorney's fees and costs, and asks the Court to certify a class action.

On June 14, 2021, TransCore filed a notice of removal seeking to move this matter from Dauphin County Court of Common Pleas. The matter was removed to the U.S. District Court for the Eastern District of Pennsylvania. On June 21, 2021, both the Commission and TransCore filed motions to dismiss. In response, Plaintiff filed a motion to remand the action to state court, which the Commission and TransCore have opposed.

The Commission cannot, at this time, predict the ultimate outcome, but will continue to assert all available defenses against these allegations in court.

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Litigation *(continued)*

The Commission is a defendant in a number of other 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 these other 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.

All-Electronic Tolling Layoff

Due to the adverse impacts of COVID-19, the Commission determined to move to AET (All-Electronic Tolling) toll collection on March 16, 2020; removing toll collectors from toll booths and relying solely on AET In-Place and E-ZPass tolling across the System. Initially intended to be a temporary response to the COVID-19 pandemic, the Commissioners, on June 2, 2020, unanimously approved the permanent transition to AET toll collection operations. As part of the permanent transition to all-electronic toll collection operations, the Commission also approved the layoff of 492 Fare Collection Department and Ticket Systems Audit Department employees. The resulting layoff of approximately 492 bargaining unit employees was implemented, effective as of June 18, 2020. The Commission so informed representatives of Teamsters Local Union Nos. 77 and 250 (collectively the *Union*) on June 2, 2020. In accordance with terms negotiated with the Union, the laid off employees may receive severance based on their years of seniority upon execution of a release of claims.

On or about June 25, 2020, the Union submitted three grievances challenging the layoff of the bargaining unit employees due to the implementation of AET. In the grievances, the Union contended that the above referenced layoff violated provisions of the applicable collective bargaining agreements and terms of the memorandum of understanding and/or purported oral promises relating to the layoff of employees. In particular, the Union alleged that the Commission was not permitted to lay off employees due to the implementation of AET until January 2022. The Union requested that the laid off employees be reinstated to their former positions and be made whole (including back pay).

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

All-Electronic Tolling Layoff *(continued)*

The Commission vigorously defended its legal and contractual rights to implement AET and to lay off employees due to such implementation, arguing that it had: (a) not violated any provisions of the applicable collective bargaining agreements, (b) not violated any provisions of the memoranda of understanding relating to the layoff of employees, and (c) acted consistently with the applicable provisions of the collective bargaining agreements and memoranda of understanding relating to the layoffs resulting from the implementation of AET.

An arbitration hearing in this matter was held on November 11, 2020. The arbitrator's decision was issued on January 20, 2021, upholding the Commission's right to implement AET and layoff the affected employees and denying the Unions' grievances. The Unions did not appeal the arbitrator's decision.

Laid off employees are eligible to apply for severance within 24 months of their layoff date. These laid off employees are also eligible to continue health benefit coverage in the Commission's group medical insurance plan for up to 24 months after their layoff date. The liabilities related to termination benefits recorded as accounts payable and accrued liabilities were $13.0 million for the fiscal year ended May 31, 2021. This amount was comprised of $2.2 million for severance for employees pending termination and $10.8 million in medical benefits. The effect on pension benefits were reflected in the SERS actuarial valuation as of December 31, 2020 through the change in allocation percentage, portion of the Commission's net pension liability and projected employer contributions, see Note 8. The effect on other postemployment benefits will be included in the full actuarial valuation to be performed as of May 31, 2021 and reported in the Commission's May 31, 2022 financial statements.

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 in the following paragraphs, the Commission and PennDOT entered into a Lease and Funding Agreement (the Act 44 Funding Agreement), incorporating many of the terms of Act 44.

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Act 44 and Act 89 *(continued)*

The Act 44 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 Act 44 Funding Agreement lapsed on October 14, 2010 without the Commission effectuating the Conversion or having the ability to do so in the future, leaving all legal, financial and operational responsibility for I-80 solely with PennDOT.

Pursuant to Act 44 and the Act 44 Funding Agreement, the Commission is obligated to make scheduled annual payments to PennDOT (*Act 44/Act 89 Payments*). Originally such payments in the amount of $450.0 million were through 2057, payable in equal quarterly installments, with $200.0 million of the scheduled annual payments supporting road and bridge projects and $250.0 million supporting transit projects throughout the Commonwealth. See the following paragraphs for subsequent changes to such annual payments.

On November 25, 2013, Act 89 was enacted to provide (i) substantial revenue enhancements to support investment in the Commonwealth's aging transportation infrastructure, and (ii) substantial reductions in the Commission's obligations with respect to the Act 44/Act 89 Payments. The revenue enhancements providing additional funds each year for investment in the Commonwealth's transportation infrastructure were fully implemented in fiscal year 2018.

Revisions to the Commission's Act 44/Act 89 Payment obligations enacted under Act 89 were implemented by Amendment Number One to Lease and Funding Agreement (the *Act 89 Amendment* and together with the Act 44 Funding Agreement, the *Original Amended Funding Agreement*) executed by the Commission and PennDOT on April 4, 2014.

In accordance with Act 89 and the Original Amended Funding Agreement, the Commission's aggregate annual Act 44/Act 89 Payment to PennDOT for fiscal year 2014 through fiscal year 2022 is $450.0 million, with at least $30.0 million of such annual amount required to be paid from current revenues and the remainder expected to be funded by the proceeds of bonds issued under the Subordinate Revenue Indenture.

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Act 44 and Act 89 *(continued)*

The Original Amended Funding Agreement was subsequently further amended, on July 31, 2018, by Amendment Number Two to Lease and Funding Agreement (the *Amendment Two)* and on June 11, 2020, by Amendment Number Three to the Lease and Funding Agreement (the *Amendment Three*, and together with the Original Amended Funding Agreement and Amendment Two, the *Amended Funding Agreement*) both of which were executed by all parties to provide current year adjustments for certain due dates for Act 44/Act 89 Payments in fiscal years 2019 through 2021.

As a result of the materially adverse impact of the COVID-19 pandemic, the Commission and PennDOT agreed, pursuant to Amendment Three, to extend the payment dates for the Commission's July 2020 and October 2020 scheduled payments of $112.5 million each, to January 29, 2021. The Commission ultimately paid the full $450.0 million within fiscal year 2021. All regularly scheduled payments for the fiscal year ended May 31, 2020 were made. For both fiscal years, the amounts are recorded as nonoperating expenses.

Act 89 relieves the Commission from over $15.0 billion in future Act 44/Act 89 Payments to PennDOT during fiscal years 2023 through 2057 (the term of the Amended Funding Agreement), by reducing the Commission's aggregate annual Act 44/Act 89 Payments to PennDOT to $50.0 million, which amount shall be paid from then-current revenues of the Commission.

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.

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Act 44 and Act 89 *(continued)*

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.” These voting procedures have never been used as the Commission has not missed any payments under the Amended Funding Agreement.

Act 44 and Act 89 provide that all Act 44/Act 89 Payments 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.

Open Purchase Order Commitments

The Commission had open purchase order commitments of approximately $1.0 billion as of each of the fiscal years ended May 31, 2021 and 2020.

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Interest Rate Swaps

The fair value and notional amounts of derivative instruments outstanding as of May 31, 2021 and May 31, 2020, classified by type and the changes in fair value of such derivative instruments for the years then ended as reported in the fiscal year 2021 and 2020 financial statements are as follows:

		Changes in Fair Value		Fair Value at May 31, 2021		
	May 31, 2020	Classification	Amount	Classification	Amount	Notional
			(In Thousands)			
Cash flow hedges						
Pay-fixed interest rate swap	$ (217,154)	Deferred (outflows)/inflows	$ 105,784	Noncurrent liabilities	$ (111,370)	$ 1,077,805
Investment derivative instruments						
Basis swaps	4,924	Investment earnings/(losses)	10,966	Noncurrent investments	15,890	551,620
Total PTC	$ (212,230)		$ 116,750		$ (95,480)	

		Changes in Fair Value		Fair Value at May 31, 2020		
	May 31, 2019	Classification	Amount	Classification	Amount	Notional
			(In Thousands)			
Cash flow hedges						
Pay-fixed interest rate swap	$ (126,520)	Deferred (outflows)/inflows	$ (90,634)	Noncurrent liabilities	$ (217,154)	$ 1,077,805
Investment derivative instruments						
Basis swaps	11,866	Investment earnings/(losses)	(6,942)	Noncurrent investments	4,924	551,620
Total PTC	$ (114,654)		$ (97,576)		$ (212,230)	

Fair Values

As of May 31, 2021 and 2020, 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 Statement No. 72 is 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.

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Interest Rate Swaps *(continued)*

Recent Activity – Cash Flow Hedges

On June 4, 2019, the Commission issued 2019 Second Series Senior Revenue Bonds; one purpose was to refund a portion of the Commission's outstanding 2014 Series B-1 Senior Revenue Bonds. As a result, the $39.2 million notional amount of the Commission's Mainline Senior SIFMA Fixed Payer swaps associated with the 2014 Series B-1 Senior Revenue Bonds were deemed terminated and are now associated with the 2019 Second Series Senior Revenue Bonds. The fair values at the time of deemed termination were $1.8 million with respect to the Goldman Sachs MMDP swap, $1.8 million with respect to the Merrill Lynch swap and $1.8 million with respect to the Morgan Stanley swap. These amounts are being amortized until December 1, 2038, which is the final maturity of the swaps.

On November 18, 2019, the Commission restructured its cancellable LIBOR Fixed Payer swap with Royal Bank of Canada on the Mainline Subordinate credit by delaying the first exercise date on the Commission's par call option from June 1, 2022 to June 1, 2029. In connection with this change, the fixed rate payable by the Commission beginning June 1, 2022 was lowered from 2.5125% to 1.8265%. The mark-to-market value of the swap at the time of the amendment was negative $12.0 million. This amount will be amortized until December 1, 2041, which is the final maturity of the swap.

On January 17, 2020, the Commission entered into a forward-starting cancellable SIFMA Fixed Payer swap, with an effective date of August 20, 2020, with Barclay's on the Mainline Senior credit, in anticipation of hedging a portion of expected new money variable-rate bonds. The 2020 Series A Senior Revenue Bonds were issued on August 20, 2020.

On June 23, 2020, the Commission issued Series of 2020 Senior Revenue Bonds; one purpose was to refund a portion of the Commission's outstanding 2014 Series B-1 Senior Revenue Bonds. As a result, $100.0 million notional amount of the Commission's Mainline Senior SIFMA Fixed Payer swaps associated with the 2014 Series B-1 Senior Revenue Bonds were deemed terminated and are now associated with the Series of 2020 Senior Revenue Bonds. The fair values at the time of deemed termination were negative $9.0 million with respect to the Goldman Sachs MMDP swap, negative $9.0 million with respect to the Merrill Lynch swap and negative $9.0 million with respect to the Morgan Stanley swap. These amounts are being amortized until December 1, 2038, which is the final maturity of the swaps.

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Interest Rate Swaps *(continued)*

Recent Activity – Cash Flow Hedges (continued)

On June 23, 2020, the Commission issued Series of 2020 Senior Revenue Bonds; one purpose was to refund a portion of the Commission's outstanding 2013 Series B Senior Revenue Bonds. As a result, the $67.8 million notional amount of the Commission's Mainline Senior LIBOR Fixed Payer swaps associated with the 2013 Series B Senior Revenue Bonds were deemed terminated and are now associated with the Series of 2020 Senior Revenue Bonds. The fair values at the time of deemed termination were negative $2.0 million with respect to the Bank of America swap, negative $2.0 million with respect to the Bank of New York Mellon swap and negative $4.1 million with respect to the JP Morgan Chase swap. These amounts are being amortized until December 1, 2030, which is the final maturity of the swaps.

Recent Activity – Investment Derivative Instruments

On June 27, 2019, the Commission fully terminated its Mainline LIBOR/CMS basis swaps with JPMorgan Chase Bank and PNC Bank in exchange for receiving termination payments totaling $1.1 million. The notional amounts at the time of termination were as follows:

- JPMorgan Chase Bank - $60.4 million
- PNC Bank - $60.4 million

On July 2, 2019, the Commission fully terminated its Mainline LIBOR/CMS basis swaps with Bank of New York Mellon and Merrill Lynch CS in exchange for receiving termination payments totaling $1.3 million. The notional amounts at the time of termination were as follows:

- Bank of New York Mellon - $75.5 million
- Merrill Lynch CS - $60.4 million

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Interest Rate Swaps *(continued)*

Following is a summary of the hedging derivative instruments in place as of May 31, 2021 and 2020. All items are fixed interest rate swap types. These hedging derivative instruments contain risks and collateral requirements as described below (in thousands).

As of May 31, 2021:

Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty	Moody's/ S&P/Fitch	Book Fair Value
1. Hedge of changes of cash flows on the 2005 Series B, C, D, Bonds	$ 57,860	12/20/2013	7/15/2041	Pay 4.2015%, receive SIFMA	Bank of New York Mellon	Aa2/AA-/AA	$ (14,686)
	57,845	8/17/2005	7/15/2041		JPMorgan Chase Bank	Aa2/A+/AA	(20,980)
	57,860	8/17/2005	7/15/2041		Merrill Lynch CS*	A2/A-/AA-	(20,998)
	57,860	8/17/2005	7/15/2041		Morgan Stanley CS ^	Aa3/A+/NR	(20,998)
	231,425						(77,662)
2. Hedge of changes of cash flows of 2014 Series B-1 Bonds (formerly 2008 Series B-1 & 2011 Series C Bonds)	50,000	5/20/2014	12/1/2038	Pay 4.887%, receive SIFMA	Goldman Sachs MMDP	Aa2/AA-/NR	(8,345)
	50,000	5/20/2014	12/1/2038		Merrill Lynch CS*	A2/A-/AA-	(8,358)
	50,000	5/20/2014	12/1/2038		Morgan Stanley CS ^	Aa3/A+/NR	(8,351)
	150,000						(25,054)
3. Hedge of changes of cash flows on the 2017 Series A Subordinate Bonds	291,850	5/2/2017	12/1/2041	Pay 2.5125% to 06/01/22, 1.8265% thereafter; receive 70.00% of 3-month LIBOR	Royal Bank of Canada	Aa2/AA-/AA	(2,497)
4. Hedge of changes of cash flows of 2018 Series A-1 Bonds (formerly 2014 Series B-1, 2008 Series B-1 & 2011 Series C Bonds)	3,617	6/28/2018	12/1/2038	Pay 4.887%, receive SIFMA	Goldman Sachs MMDP	Aa2/AA-/NR	(406)
	3,617	6/28/2018	12/1/2038		Merrill Lynch CS*	A2/A-/AA-	(406)
	3,616	6/28/2018	12/1/2038		Morgan Stanley CS ^	Aa3/A+/NR	(406)
	10,850						(1,218)
5. Hedge of changes of cash flows of 2018 Series B Bonds (formerly 2017 Series B-2, 2016 Series A-2, 2014 Series B-2 & 2012 Series B Bonds)	21,576	11/6/2018	12/1/2030	Pay 4.403%, receive 67.00% of 1-month LIBOR	Bank of America*	Aa2/A+/AA	(1,876)
	21,576	11/6/2018	12/1/2030		Bank of New York Mellon	Aa2/AA-/AA	(1,875)
	43,125	11/6/2018	12/1/2030		JPMorgan Chase Bank	Aa2/A+/AA	(3,752)
	86,277						(7,503)
6. Hedge of changes of cash flow on the 2nd Series of 2019 (formerly 2014 B-1, formerly 2008 B-1 & 2011 C Bonds)	13,050	6/4/2019	12/1/2038	Pay 4.887%, receive SIFMA	Goldman Sachs MMDP	Aa2/AA-/NR	(579)
	13,050	6/4/2019	12/1/2038		Merrill Lynch CS*	A2/A-/AA-	(580)
	13,050	6/4/2019	12/1/2038		Morgan Stanley CS ^	Aa3/A+/NR	(580)
	39,150						(1,739)
7. Hedge of changes of cash flows on the Series of 2020 Bonds (formerly 2013 Series B, 2009 Series C & 2011 Series D	16,944	6/23/2020	12/1/2030	Pay 4.403%, receive 67.00% of 1-month LIBOR	Bank of America*	Aa2/A+/AA	428
	33,865	6/23/2020	12/1/2030		JPMorgan Chase Bank	Aa2/A+/AA	428
	16,944	6/23/2020	12/1/2030		Bank of New York Mellon	Aa2/AA-/AA	854
	67,753						1,710
8. Hedge of changes of cash flow on the Series of 2020 (formerly 2014 B-1, formerly 2008 B-1 & 2011 C Bonds)	33,333	6/23/2020	12/1/2038	Pay 4.887%, receive SIFMA	Goldman Sachs MMDP	Aa2/AA-/NR	1,975
	33,333	6/23/2020	12/1/2038		Merrill Lynch CS*	A2/A-/AA-	2,007
	33,334	6/23/2020	12/1/2038		Morgan Stanley CS ^	Aa3/A+/NR	1,996
	100,000						5,978
9. Hedge of changes of cash flows on the 2020 Series A Bonds (new money)	100,500	8/20/2020	12/1/2050	Pay 1.995%, receive SIFMA	Barclay's	A1/A/A+	(3,385)
Total	$ 1,077,805						$ (111,370)

1-month LIBOR was 0.08588% as of May 31, 2021.
3-month LIBOR was 0.13138% as of May 31, 2021.
SIFMA was 0.05% as of May 31, 2021.

* 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, 2021.

^ Guaranteed by Morgan Stanley & Co. whose credit ratings at May 31, 2021 were 'A1/BBB+/A' (Moody's/S&P/Fitch).

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Interest Rate Swaps *(continued)*

As of May 31, 2020:

Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty	Moody's/ S&P/Fitch	Book Fair Value
1. Hedge of changes of cash flows on the 2005 Series B, C, D, Bonds	$ 57,860	12/20/2013	7/15/2041	Pay 4.2015%, receive SIFMA	Bank of New York Mellon	Aa2/AA-/AA	$ (19,548)
	57,845	8/17/2005	7/15/2041		JPMorgan Chase Bank	Aa2/A+/AA	(25,836)
	57,860	8/17/2005	7/15/2041		Merrill Lynch CS*	A2/A-/A+	(25,843)
	57,860	8/17/2005	7/15/2041		Morgan Stanley CS	A3/BBB+/A	(25,843)
	231,425						(97,070)
2. 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*	Aa2/A+/AA-	(1,960)
	33,865	7/23/2013	12/1/2030		JPMorgan Chase Bank	Aa2/A+/AA	(3,916)
	16,944	7/23/2013	12/1/2030		Bank of New York Mellon	Aa2/AA-/AA	(1,960)
	67,753						(7,836)
3. Hedge of changes of cash flows of 2014 Series B-1 Bonds (formerly 2008 Series B-1 & 2011 Series C Bonds)	83,333	5/20/2014	12/1/2038	Pay 4.887%, receive SIFMA	Goldman Sachs MMDP	Aa2/AA-/NR	(20,198)
	83,333	5/20/2014	12/1/2038		Merrill Lynch CS*	A2/A-/A+	(20,206)
	83,334	5/20/2014	12/1/2038		Morgan Stanley CS	A3/BBB+/A	(20,195)
	250,000						(60,599)
4. 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	Aa2/AA-/AA	(24,923)
5. Hedge of changes of cash flows of 2018 Series A-1 Bonds (formerly 2014 Series B-1, 2008 Series B-1 & 2011 Series C Bonds)	3,617	6/28/2018	12/1/2038	Pay 4.887%, receive SIFMA	Goldman Sachs MMDP	Aa2/AA-/NR	(670)
	3,617	6/28/2018	12/1/2038		Merrill Lynch CS*	A2/A-/A+	(669)
	3,616	6/28/2018	12/1/2038		Morgan Stanley CS	A3/BBB+/A	(670)
	10,850						(2,009)
6. Hedge of changes of cash flows of 2018 Series B Bonds (formerly 2017 Series B-2, 2016 Series A-2, 2014 Series B-2 & 2012 Series B Bonds)	21,576	11/6/2018	12/1/2030	Pay 4.403%, receive 67.00% of 1-month LIBOR	Bank of America*	Aa2/A+/AA-	(2,744)
	21,576	11/6/2018	12/1/2030		Bank of New York Mellon	Aa2/AA-/AA	(2,744)
	43,125	11/6/2018	12/1/2030		JPMorgan Chase Bank	Aa2/A+/AA	(5,485)
	86,277						(10,973)
7. Hedge of changes of cash flow on the 2nd Series of 2019 (formerly 2014 B-1, formerly2008 B-1 & 2011 C Bonds)	13,050	6/4/2019	12/1/2038	Pay 4.887%, receive SIFMA	Goldman Sachs MMDP	Aa2/AA-/NR	(1,493)
	13,050	6/4/2019	12/1/2038		Merrill Lynch CS*	A2/A-/A+	(1,493)
	13,050	6/4/2019	12/1/2038		Morgan Stanley CS	A3/BBB+/A	(1,492)
	39,150						(4,478)
8. Hedge of changes of cash flows on the 2020 Series A Bonds (new money)	100,500	8/20/2020	12/1/2050	Pay 1.995%, receive SIFMA	Barclay's	A1/A/A+	(9,266)
Total	$ 1,077,805						$ (217,154)

1-month LIBOR was 0.1825% as of May 31, 2020.
3-month LIBOR was 0.3440% as of May 31, 2020.
SIFMA was 0.14% as of May 31, 2020.

* 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, 2020.

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 derivative instruments that have positive full values from the counterparty and investment derivative instruments (see Note 4) that have positive fair values. As of May 31, 2021, the Commission has credit risk exposure with respect to the (B), (C) and (D) investment derivative instruments listed in Note 4. However, should interest rates change and the fair values of the other swaps become positive, the Commission would have additional credit risk exposure.

  To mitigate the exposure to credit risk, the swap agreements include collateral provisions in the event of downgrades to the swap counterparties' credit ratings along with the values of the swaps exceeding certain thresholds specified in the swap agreement. The Commission's derivative instrument 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 bank custodian and would be in the form of cash, U.S. Treasury Obligations, or U.S. Government Agency Securities. As of May 31, 2021, the Commission had net credit risk exposure to three counterparties pursuant to the provisions of the respective derivative instrument agreements. One counterparty has posted collateral in the amount of $4.7 million. The other two counterparties were not required to post collateral either due to their credit ratings or because the swap value at year end was 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 derivative instruments 2, 4 and 5 in the May 31, 2021 summary of hedging derivative instruments table because the maturity date of these derivative instruments is longer than the maturity date of the related debt.

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 instrument 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 SIFMA exceeds 63% of 1-month LIBOR + 20 basis points

  (B) – To the extent 67% of 1-month LIBOR exceeds 60.15% of the 10-year maturity of the USD-ISDA Swap Rate

  (C) – To the extent SIFMA exceeds 99.68% of 3-month LIBOR

  (D) – 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.

- ***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) and 'A-' (S&P and Fitch) levels. The Commission's Mainline Senior Bond rating was 'A1' from Moody's, 'A+' from S&P and 'A+' from Fitch at May 31, 2021. The Commission's Mainline Subordinate Bond rating was 'A3' from Moody's, 'A' from S&P and 'A-' from Fitch as of May 31, 2021. Based on May 31, 2021 full values, the Commission could be required to post $171.2 million in collateral for its derivate instruments if its ratings fall below the agreement thresholds.

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Interest Rate Swaps *(continued)*

The Commission's derivative instruments related to its Oil 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) and 'A-' (S&P and Fitch) levels. The Commission's Oil Franchise Tax Senior Bond rating was 'Aa3' from Moody's, 'AA-' from S&P and 'NR' from Fitch as of May 31, 2021. Based on May 31, 2021 full values, the Commission could be required to post $31,800 in collateral for its derivative instruments if its ratings fall below the agreements thresholds.

The Commission's derivative instruments related to its Motor License 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 License Registration Fee Revenue Bond rating was 'A1' from Moody's, 'A+' from S&P and 'AA-' from Fitch as of May 31, 2021. Based on May 31, 2021 full values, the Commission could be required to post $90.3 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 $60.0 million and $57.9 million for the fiscal years ended May 31, 2021 and 2020, respectively, primarily related to its use of the Commonwealth's State Police in patrolling the Turnpike System. In addition, the Commission purchased $2.8 million of radios, which were transferred to the State Police during fiscal year ended May 31, 2021.

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Commission maintains an Other Postemployment 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 Section 115 of the Internal Revenue Code, to provide funding of the Plan's other postemployment benefits (OPEB).

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS *(continued)*

Plan Description *(continued)*

The Trust is administered by Trustees who are appointed by and serve at the pleasure of the Commission. The chairman and vice chairman of the Trust are appointed by the Trustees and serve two-year terms. PNC Bank serves as custodian of the assets of the Plan. Disbursement of Plan assets are made by the custodian at the direction of the Trustees. The Plan's financial statements are not included in the financial statements of a public employee retirement system. The Plan 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 postemployment medical, prescription drug, dental and vision benefits to management and supervisory union employees based upon their age, 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.)

Prior to May 20, 2020, the same coverage and cost was provided to surviving spouses or domestic partners and dependents of management and supervisory union retirees who retired after March 1, 2001. Surviving spouses or domestic partners of retirees who retired on or 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. Effective May 20, 2020, domestic partners are no longer eligible to enroll.

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS *(continued)*

Plan Description *(continued)*

Non-Supervisory Union Employees/Retirees

The benefits also include certain postemployment medical and prescription drug benefits to non-supervisory union employees who have satisfied the age and/or Credited Service eligibility requirements in the applicable collective bargaining agreement. Credited Service is defined as one year of service earned when an employee works 1,650 hours or more in a calendar year. Eligibility categories include:

- For Local 30 Professionals who were hired prior to January 1, 2011, and retired after February 1, 2005, and for Local 250 and 77 employees who were hired prior to January 27, 2016, and retired after February 1, 2005, 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 for Local 250 and 77 employees who were hired on or after January 27, 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. (Some current and previous Commonwealth employees hired on or after this date for Local 30 professionals would be grandfathered under the first eligibility category.)

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.

Employees Covered by Benefit Terms

As of May 31 (the measurement date), the following employees were covered by the benefit terms.

	2020	2019
Inactive plan members or beneficiaries currently receiving benefit payments	1,655	1,626
Inactive plan members entitled to but not yet receiving benefit payments	81	70
Active plan members	1,786	1,812
Total	3,522	3,508

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS *(continued)*

Contributions

The Commission has adopted a Retiree Medical Trust Funding Policy, effective September 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 in accordance with GASB Statement No. 45, during the approval of its annual operating budget. With the implementation of GASB Statement No. 75, the Commission revised the policy in June 2020 to now refer to the Actuarially Determined Contribution (ADC) instead of the ARC.

Retiree and spouse contribution rates at May 31, 2020 and 2019 are as follows:

- Management and supervisory union employees who retired prior to July 1, 1998, and union employees who retired prior to October 1, 1997 – the retiree/spouse contributes the full cost of coverage less the Commission's monthly subsidy of $19.28 once the retiree reaches age 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 reaches age 65.

- Prior to May 20, 2020, management and supervisory union employees who retired on or after March 1, 2016, and Local 250 and 77 employees who retired after February 1, 2016, as well as Local 30 professionals who retired after January 1, 2014, were required to participate in a wellness program or contribute 5% of the premium if less than age 65. This program was discontinued effective May 20, 2020.

- 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.

Net OPEB Liability

As of May 31, 2021 and 2020, the Commission recorded a net OPEB liability of $14.8 million and $1.8 million, respectively.

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS *(continued)*

Net OPEB Liability *(continued)*

Actuarial Assumptions and Discount Rate

The total OPEB liability reported as of May 31, 2021 was determined by an actuarial valuation as of the valuation date (May 31, 2019), calculated based on the discount rate and actuarial assumptions below, and was then projected forward, using update procedures, to the measurement date (May 31, 2020). The total OPEB liability reported as of May 31, 2020 was determined by an actuarial valuation as of May 31, 2019 which was calculated based on the discount rate and actuarial assumptions below. There have been no significant changes between the valuation dates and the fiscal year ends.

	May 31, 2020	**May 31, 2019**
Discount rate	6.0%	6.0%
Long-term expected rate of return, net of investment expense	6.0%	6.0%

The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total OPEB liability is equal to the long-term expected rate of return.

The Plan has not had a formal actuarial experience study performed.

Measurement date	**May 31, 2020**	**May 31, 2019**
Actuarial cost method	Entry Age Normal	Entry Age Normal
Inflation	2.5%	2.5%
Salary increases for union members	3.0%	3.0%
Salary increases for management members	3.3%	3.3%
Amortization method	Level dollar amortization over a period of 10 years	
Asset valuation method	Market value plus receivable contributions made attributable to a prior fiscal year	

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS *(continued)*

Net OPEB Liability *(continued)*

Actuarial Assumptions and Discount Rate (continued)

The healthcare cost trend assumption is based on the Society of Actuaries Getzen Model version 2017.2, utilizing the baseline assumptions included in the model for medical and prescription drug benefits. Adjustments are applied 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 benefits at sample years is as follows:

Valuation Year	Pre-65 Trend	Post-65 Trend
2020	4.9%	4.9%
2025	4.8	4.7
2030	5.5	4.8
2035	5.5	4.8
2040	5.6	4.9
2050	5.2	4.7
2060	5.0	4.9
2070	4.3	4.8

Mortality rates were based on the RP-2014 Total Mortality Tables adjusted to reflect Mortality Improvement Scale MP-2018 and projected forward on a generational basis (based on recommendation of Society of Actuaries' Retirement Plans Experience Committee), with employee rates before benefit commencement and healthy annuitant rates after benefit commencement, and reflecting mortality improvements both before and after the valuation date.

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. Best estimates of arithmetic real rates of return for each major asset class are summarized in the following tables:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	27%	4.81%
International equity	18%	5.97
Rates/credit	25%	1.82
Real assets	19%	3.67
Multi-asset	10%	2.14
Cash	1%	0.20

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS *(continued)*

Changes in the Net OPEB Liability

	Increases (Decreases)		
	Total OPEB Liability (a)	**Plan Fiduciary Net Position (b)**	**Net OPEB Liability (a) – (b)**
		(in Thousands)	
Balances as of May 31, 2019	$ 462,199	$ 460,354	$ 1,845
Changes for the year			
Service cost	11,141	-	11,141
Interest on OPEB liability	27,723	-	27,723
Benefit payments	(20,848)	(20,848)	-
Employer contributions	-	11,730	(11,730)
Net investment income	-	14,196	(14,196)
Administrative expenses	-	(8)	8
Balances as of May 31, 2020	$ 480,215	$ 465,424	$ 14,791

	Increases (Decreases)		
	Total OPEB Liability (a)	**Plan Fiduciary Net Position (b)**	**Net OPEB Liability (a) – (b)**
		(in Thousands)	
Balances as of May 31, 2018	$ 437,477	$ 424,543	$ 12,934
Changes for the year			
Service cost	11,254	-	11,254
Interest on OPEB liability	26,371	-	26,371
Effect of economic/ demographic gains or losses	8,487	-	8,487
Effect of assumptions changes or inputs	(4,358)	-	(4,358)
Benefit payments	(17,032)	(17,032)	-
Employer contributions	-	46,056	(46,056)
Net investment income	-	6,789	(6,789)
Administrative expenses	-	(2)	2
Balances as of May 31, 2019	$ 462,199	$ 460,354	$ 1,845

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS *(continued)*

Changes in the Net OPEB Liability *(continued)*

Sensitivity Analysis

The following presents the net OPEB liability of the Commission, calculated using the discount rate of 6.0%, as well as what the Commission's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.0%) or one percentage point higher (7.0%) than the current discount rate.

	1% Decrease (5.0%)	Current Discount Rate (6.0%)	1% Increase (7.0%)
		(in Thousands)	
Net OPEB liability (asset) as of May 31, 2020	$ 72,363	$ 14,791	$ (32,836)
Net OPEB liability (asset) as of May 31, 2019	$ 58,238	$ 1,845	$ (44,812)

The following presents the net OPEB liability of the Commission, calculated using the current healthcare cost trend rates as well as what the net OPEB liability would be if it were calculated using trend rates that are one percentage point lower or one percentage point higher than the current trend rates.

	1% Decrease	Current Trend Rate	1% Increase
		(in Thousands)	
Net OPEB (asset) liability as of May 31, 2020	$ (40,979)	$ 14,791	$ 83,566
Net OPEB (asset) liability as of May 31, 2019	$ (48,861)	$ 1,845	$ 64,200

OPEB Plan Fiduciary Net Position

The Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position as of and for the fiscal year ended May 31, 2021 are presented in the Basic Financial Statement section of this report. Further detailed information about the OPEB plan's fiduciary net position is available in the separately issued Pennsylvania Turnpike Commission Other Postemployment Welfare Plan Program financial statements. The stand-alone Plan financial statements can be obtained by contacting the Commission's Accounting & Financial Reporting Department.

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS *(continued)*

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended May 31, 2021, the Commission recognized OPEB expense of $16.1 million. As of May 31, 2021, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	(In Thousands)	
Differences between expected and actual experience	$ 5,658	$ 1,379
Changes of assumptions	-	2,905
Net difference between projected and actual earnings on OPEB plan investments	17,766	-
Contributions subsequent to measurement date	47,250	-
	$ 70,674	$ 4,284

The $47.3 million reported as deferred outflows of resources related to OPEB, resulting from Commission contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability during the fiscal year ending May 31, 2022. Other amounts reported as deferred inflows of resources related to OPEB will be recognized as net increases in OPEB expense as follows:

Year Ending May 31	
	(in Thousands)
2022	$ 4,555
2023	4,555
2024	6,798
2025	3,232
Thereafter	-

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS *(continued)*

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB *(continued)*

For the year ended May 31, 2020, the Commission recognized OPEB expense of $13.2 million. As of May 31, 2020, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	(In Thousands)	
Differences between expected and actual experience	$ 7,072	$ 1,809
Changes of assumptions	-	3,632
Net difference between projected and actual earnings on OPEB plan investments	8,913	-
Contributions subsequent to measurement date	11,730	-
	$ 27,715	$ 5,441

The $11.7 million reported as deferred outflows of resources related to OPEB resulting from Commission contributions subsequent to the measurement date was recognized as a reduction of the net OPEB liability during the fiscal year ended May 31, 2021.

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.

NOTE 12 SELF-INSURANCE *(continued)*

The Commission recorded a liability of $38.6 million and $38.8 million for loss and loss adjustment expenses for claims relating to workers' compensation, motor vehicle and tort self-insurance that have been incurred and for claims incurred but not reported as of May 31, 2021 and 2020, respectively. The workers' compensation, motor vehicle and tort self-insurance liabilities recorded as accounts payable and accrued liabilities are $3.9 million and $4.0 million for the fiscal years ended May 31, 2021 and 2020, respectively. The workers' compensation, motor vehicle and tort self-insurance liabilities recorded as other noncurrent liabilities are $34.7 million and $34.8 million for the fiscal years ended May 31, 2021 and 2020, 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 1.5% for both fiscal years ended May 31, 2021 and 2020. The liability includes amounts for claims adjustment expense and is net of any recoveries and subrogation. Recoveries and subrogation were not material for the years ended May 31, 2021 and 2020. 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 since 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.

NOTE 12 SELF-INSURANCE *(continued)*

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

	May 31, 2020 Liability	Effects of Discount as of June 1, 2020	Incurred Claims Current Year	Incurred Claims Prior Years	Paid Claims Current Year	Paid Claims Prior Years	Effects of Discount as of May 31, 2021	May 31, 2021 Liability
				(In Thousands)				
Year ended May 31, 2021								
Workers' compensation	$ 8,827	$ 1,169	$ 861	$ 867	$ (442)	$ (2,007)	$ (654)	$ 8,621
Motor vehicle/general tort	29,961	-	27	367	(25)	(394)	-	29,936
	$ 38,788	$ 1,169	$ 888	$ 1,234	$ (467)	$ (2,401)	$ (654)	$ 38,557

	May 31, 2019 Liability	Effects of Discount as of June 1, 2019	Incurred Claims Current Year	Incurred Claims Prior Years	Paid Claims Current Year	Paid Claims Prior Years	Effects of Discount as of May 31, 2020	May 31, 2020 Liability
				(In Thousands)				
Year ended May 31, 2020								
Workers' compensation	$ 8,704	$ 945	$ 1,272	$ 2,434	$ (592)	$ (2,767)	$ (1,169)	$ 8,827
Motor vehicle/general tort	29,209	-	230	1,332	(75)	(735)	-	29,961
	$ 37,913	$ 945	$ 1,502	$ 3,766	$ (667)	$ (3,502)	$ (1,169)	$ 38,788

The foregoing reflects an adjustment for an increase of $1.2 million and an increase of $3.8 million for the fiscal years ended May 31, 2021 and 2020, respectively, in the provision for events of prior fiscal years (Incurred Claims – Prior Years) 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 $1.7 million during each of the fiscal years ended May 31, 2021 and 2020.

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.

NOTE 13 COMPENSATED ABSENCES *(continued)*

Upon termination of employment, all unused sick and vacation leave is paid to the employee. The compensated absences liabilities were $17.8 million and $17.4 million for the fiscal years ended May 31, 2021 and 2020, respectively. The compensated absences liabilities recorded as accounts payable and accrued liabilities were $9.8 million and $9.6 million for the fiscal years ended May 31, 2021 and 2020, respectively. The compensated absences liabilities recorded as other noncurrent liabilities were $8.0 million and $7.8 million for the fiscal years ended May 31, 2021 and 2020, respectively.

A summary of changes to compensated absences for the years ended May 31, 2021 and 2020 is as follows:

Fiscal Year Ended May 31	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
			(In Thousands)		
2021	$ 17,386	$ 10,706	$ 10,260	$ 17,832	$ 9,808
2020	15,885	12,562	11,061	17,386	9,562

NOTE 14 LETTERS OF CREDIT

Pennsylvania insurance law requires a letter of credit, surety bond, or escrow from entities that self-insure their Workers' Compensation. As of May 31, 2021, the Commission has one standby letter 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 the letter of credit. The Letter of Credit is $340,000 with Wells Fargo Bank, N.A. for beneficiary Zurich American Insurance for the Uniontown to Brownsville Phase II OCIP.

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.

Supplemental Trust Indenture No. 50 dated as of June 1, 2019, amendment and restatement of the Amended and Restated Indenture of Trust dated as of March 1, 2001, between the Commission and U.S. Bank National Association required a Letter of Credit to be established for the 2019 Second Series Senior Revenue Bonds. The Commission entered into a Letter of Credit with TD Bank, N.A. in the amount of up to $142,205,262 for purposes of paying debt service obligations on the bonds. There were no outstanding draws against the Letter of Credit at May 31, 2021 and 2020.

NOTE 14 LETTERS OF CREDIT *(continued)*

Supplemental Trust Indenture No. 55 dated as of June 1, 2020, amendment and restatement of the Amended and Restated Indenture of Trust dated as of March 1, 2001, between the Commission and U.S. Bank National Association required a Letter of Credit to be established for the 2020 Series Senior Revenue Bonds. The Commission entered into a Letter of Credit with TD Bank, N.A in the amount of up to $229,680,594 for purposes of paying debt service obligations on the bonds. There were no outstanding draws against the Letter of Credit at May 31, 2021.

Supplemental Trust Indenture No. 56 dated as of August 1, 2020, amendment and restatement of the Amended and Restated Indenture of Trust dated as of March 1, 2001, between the Commission and U.S. Bank National Association required a Letter of Credit to be established for the 2020 Series A Senior Revenue Bonds. The Commission entered into a Letter of Credit with Barclays Bank PLC in the amount of up to $102,218,137 for purposes of paying debt service obligations on the bonds. There were no outstanding draws against the Letter of Credit at May 31, 2021.

NOTE 15 SUBSEQUENT EVENTS

On June 3, 2021, the Commission transferred assets with a net book value of $41.4 million to PennDOT. These assets were overhead bridges that carry state roads. The Commission replaced the bridges and, upon completion, ownership and maintenance responsibilities of the bridges are transferred to PennDOT.

On June 9, 2021, the 2020 Line of Credit expired and the Commission executed a new $200.0 million line of credit as a continuing liquidity safeguard from PNC Bank, N.A.

On June 30, 2021, the Commission executed an unwind of the Mainline SIFMA/LIBOR Basis Swap with Deutsche Bank in exchange for receiving a termination amount of $3.6 million. The notional amount of the Deutsche Bank swap at the time of termination was $115.8 million.

On July 14, 2021, the Commission issued $385,800,000 of 2021 Series B Senior Revenue Bonds at a fixed rate with a maturity of December 1, 2051. The 2021 Series B Senior Revenue Bonds were issued to refund a portion of the Commission’s 2014 Series B-1 Senior Revenue Bonds ($150,000,000), 2018 Series A-1 Senior Revenue Bonds ($39,710,000), and 2018 Series B Senior Revenue Bonds ($70,000,000), to finance the cost of various capital expenditures set forth in the Commission’s Ten-Year Capital Plan, including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and/or rehabilitation of certain interchanges, and for paying the costs of issuing the 2021 B Senior Revenue Bonds.

NOTE 15 SUBSEQUENT EVENTS *(continued)*

On July 23, 2021, the Commission executed the Consent to Transfer of Lease Agreement regarding the pending sale of HMSHost Corporation's U.S. motorway business to Irish Buyer, LLC a consortium of Applegreen Ltd. and Blackstone Infrastructure Partners. HMSHost Family Restaurants, LLC shall undergo a formal name change to Applegreen USA Family Restaurants, LLC and would remain the Lessee under the service plaza agreements and continue to support the day-to-day operations.

On July 27, 2021, the Commission issued $393,790,000 of 2021 Series B Subordinate Revenue Bonds at a fixed rate with a maturity date of December 1, 2051. The 2021 Series B Subordinate Revenue Bonds were issued primarily to finance a portion of the cost of making payments to PennDOT in accordance with Act 44 and Act 89 and for paying the cost of issuing the 2021 Series B Subordinate Revenue Bonds.

On July 28, 2021, the Commission made its final $450.0 million payment to PennDOT, as mandated by Act 44 and Act 89.

On September 2, 2021, the Commission issued $327,520,000 2021 Series A Oil Franchise Tax Senior Revenue Bonds at a fixed rate with a maturity date of December 1, 2051. The 2021 Series A Oil Franchise Tax Senior Revenue Bonds were issued to finance the costs of the 2021 Construction Project, refunding of the 2009 Series A Oil Franchise Tax Senior Revenue Bonds ($3,855,000) and for paying the costs of issuing the 2021 Series A Oil Franchise Tax Senior Revenue Bonds.

On September 2, 2021, the Commission issued $201,480,000 2021 Series B Oil Franchise Tax Subordinate Revenue Bonds at a fixed rate with a maturity date of December 1, 2053. The 2021 Series B Oil Franchise Tax Subordinate Revenue Bonds were issued to finance the costs of the 2021 Construction Project, refunding of the 2009 Series D Oil Franchise Tax Subordinate Revenue Bonds ($19,475,000) and for paying the costs of issuing the 2021 Series B Oil Franchise Tax Subordinate Revenue Bonds.

On September 21, 2021, the Commission approved an amendment to the lease agreement with 7-Eleven, Inc. to exercise its option to renew the service plaza lease agreement for an additional five years.

On October 5, 2021, the Commission authorized the approval of the issuance of the Pennsylvania Turnpike Commission's variable- and/or fixed-rate Turnpike Revenue Bonds in an aggregate principal amount not to exceed $500,000,000 in one or more series or sub-series, taxable or tax exempt, for the purpose of financing the costs of various capital expenditures for the Pennsylvania Turnpike system set forth in the Commission's current Ten Year Capital Plan, the refunding of all or a portion of certain outstanding Turnpike Revenue Bonds and funding of necessary reserves.

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 – Pension Fund (Unaudited)

Last 10 Fiscal Years*
(Dollar Amounts in Thousands)

	2021	2020	2019	2018	2017	2016	2015
Commission's proportion of the net pension liability	1.57665712%	1.81091910%	1.85214667%	1.90329134%	1.96867410%	1.90799267%	1.99409814%
Commission's proportionate share of the net pension liability	$ 288,472	$ 329,189	$ 385,821	$ 329,112	$ 379,173	$ 346,946	$ 296,271
Commission's covered payroll	108,555	121,643	121,127	120,641	123,365	121,085	121,579
Commission's proportionate share of the net pension liability as a percentage of its covered payroll	265.74%	270.62%	318.53%	272.80%	307.36%	286.53%	243.69%
Plan fiduciary net position as a percentage of the total pension liability	67.0%	63.1%	56.4%	63.0%	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 Statement No. 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 – Pension Fund (Unaudited)

Last 10 Fiscal Years*
(Dollar Amounts in Thousands)

	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 30,785	$ 37,699	$ 37,771	$ 38,073	$ 33,303	$ 27,864	$ 22,588
Contributions in relation to the contractually required contribution	(30,785)	(37,699)	(37,771)	(38,073)	(33,303)	(27,864)	(22,588)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commission's covered payroll^	$ 97,446	$ 120,107	$ 122,145	$ 122,654	$ 121,778	$ 121,060	$ 121,009
Contributions as a percentage of covered payroll	31.59%	31.39%	30.92%	31.04%	27.35%	23.02%	18.67%

* 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 Statement No. 68 on a prospective basis in fiscal year 2015; therefore, only the available years are presented in the above schedule.

^ Classes A5 and A6 became effective on January 1, 2020 and are now included in covered payroll due to the Hybrid plan including a pension fund contribution component.

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Schedule of Changes in the Commission's Net OPEB Liability and Related Ratios (Unaudited)

Last 10 Fiscal Years*
(Dollar Amounts in Thousands)

Fiscal Year Ended / *Measurement Date*	**05/31/21** / **05/31/20**	**05/31/20** / **05/31/19**	**05/31/19** / **05/31/18**
Total OPEB Liability			
Service cost	$ 11,141	$ 11,254	$ 10,926
Interest on total OPEB liability	27,723	26,371	25,431
Effect of economic/demographic gains or losses	-	8,487	(2,671)
Effect of assumptions changes or inputs	-	(4,358)	-
Benefit payments	(20,848)	(17,032)	(17,984)
Net change in total OPEB liability	18,016	24,722	15,702
Total OPEB liability, beginning	462,199	437,477	421,775
Total OPEB liability, ending (a)	480,215	462,199	437,477
Plan fiduciary net position			
Employer contributions	11,730	46,056	28,171
Net investment income	14,196	6,789	34,322
Benefit payments	(20,848)	(17,032)	(17,984)
Administrative expenses	(8)	(2)	(11)
Net change in plan fiduciary net position	5,070	35,811	44,498
Plan fiduciary net position, beginning	460,354	424,543	380,045
Plan fiduciary net position, ending (b)	465,424	460,354	424,543
Commission's net OPEB liability, ending = (a) – (b)	$ 14,791	$ 1,845	$ 12,934
Plan fiduciary net position as a % of total OPEB liability	96.9%	99.6%	97.0%
Covered-employee payroll	$ 118,560	$ 119,730	$ 119,391
Commission's net OPEB liability as a % of covered payroll	12.5%	1.5%	10.8%

* The Commission adopted GASB Statement No. 75 in fiscal year 2019; 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 Contributions to the Other Postemployment
Welfare Plan Program (Unaudited)

Last 10 Fiscal Years
(Dollar Amounts in Thousands)

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Actuarially determined contribution	$ 14,012	$ 11,729	$ 13,970	$ 8,384	$ 11,121	$ 11,368	$ 12,683	$ 18,353	$ 23,423	$ 28,821
Contributions in relation to the actuarially determined contribution	47,250	11,730	46,056	28,171	28,176	28,143	46,180	44,228	54,768	54,397
Contribution deficiency (excess)	$ (33,238)	$ (1)	$ (32,086)	$ (19,787)	$ (17,055)	$ (16,775)	$ (33,497)	$ (25,875)	$ (31,345)	$ (25,576)
Covered-employee payroll	$ 100,154	$ 118,560	$ 119,730	$ 119,391	$ 117,818	$ 117,391	$ 116,829	$ 118,507	$ 116,716	$ 112,408
Contributions as a % of covered-employee payroll	47.2%	9.9%	38.5%	23.6%	23.9%	24.0%	39.5%	37.3%	46.9%	48.4%

Notes to Schedule

Full actuarial valuations are performed every other year.

The Actuarially Determined Contribution for the fiscal year ended May 31, 2021 was calculated based on a May 31, 2019 full valuation and then projected forward to the May 31, 2020 measurement date. See Note 11 to the financial statements for more information.

The Actuarially Determined Contribution for the fiscal year ended May 31, 2020 was calculated based on a May 31, 2019 full valuation. See Note 11 to the financial statements for more information.

The Actuarially Determined Contribution for the fiscal year ended May 31, 2019 was calculated based on a June 1, 2017 full valuation and then projected forward to the May 31, 2018 measurement date.

The Actuarially Determined Contribution (formerly Annual Required Contribution) for the fiscal year ended May 31, 2018 was calculated based on a January 1, 2017 interim valuation that was rolled forward from the January 1, 2016 full valuation.

The Actuarially Determined Contribution (formerly Annual Required Contribution) for the fiscal year ended May 31, 2017 was calculated based on a January 1, 2016 full valuation.

Notes to Schedule *(continued)*

A summary of the actuarial methods and assumptions used in the full valuations are as follows:

	May 31, 2019 Full Valuation	June 1, 2017 Full Valuation	January 1, 2016 Full Valuation
Actuarial cost method	Entry Age Normal	Entry Age Normal	Projected-unit credit
Discount rate	6.0%	6.0%	6.5%
Rate of return on assets	6.0%	6.0%	6.5%
Inflation rate	2.5%	2.3%	2.5%
Amortization method	Level dollar amortization over a period of 10 years	Level dollar amortization over a period of 10 years	Level dollar
Amortization period			
▪ - UAAL as of March 1, 2012	N/A	N/A	10 years (closed)
▪ - Subsequent changes	N/A	N/A	10 years (open)
Asset valuation method	Market value plus receivable contributions made attributable to a prior fiscal year	Market value plus receivable contributions made attributable to a prior fiscal year	Fair value
Health cost trend rates	Varying rates between 4.3% and 5.6% for Plan benefits.	Varying rates between 4.3% and 6.3% for medical and pharmacy benefits. 4.0% for dental and vision benefits.	Varying rates between 4.6% and 6.2% for medical and pharmacy benefits. 4.0% for dental and vision benefits.
Salary increases	Union – 3.0%, Management – 3.3%	Union – 3.0%, Management – 3.3%	Not considered as OPEB benefits are not based upon pay.
Mortality	RPH-2014 total Dataset Mortality Tables adjusted to reflect Mortality Improvement Scale MP-2018 and projected forward on a generational basis, with employee rates before benefit commencement and healthy annuitant rates after benefit commencement, and reflecting mortality improvements both before and after the valuation date.	RPH-2014 total Dataset Mortality Tables adjusted to reflect Mortality Improvement Scale MP-2017 from 2006 base year and projected forward on a generational basis, with employee rates before benefit commencement and healthy annuitant rates after benefit commencement, and reflecting mortality improvements both before and after the valuation date.	RP-2000 Healthy Annuitant Mortality Table projected on a generational basis using Scale AA to allow for past and future improvements in mortality. The Employee table is used for pre-retirement. Rates vary by age and gender.

Other Significant Changes

The January 1, 2015 interim valuation used a discount rate of 6.5%. The January 1, 2014 and March 1, 2012 full valuations used a discount rate of 7.0%. The March 1, 2010 and 2008 full valuations used a discount rate of 8.0%. The discount rate and rate of return on assets were equal for all years noted.

OTHER SUPPLEMENTARY 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 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 Franchise Tax Debt as listed in Note 7 to the financial statements.

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 to the financial statements.

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Section Information *(continued)*
Schedule of Net Position – Business-type activities

	May 31, 2021			
	Mainline	Oil Franchise	Motor License	Total
		(In Thousands)		
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current assets:				
Cash and cash equivalents	$ 225,679	$ -	$ -	$ 225,679
Investments	52,563	-	-	52,563
Accounts receivable	118,340	-	-	118,340
Accrued interest receivable	1,845	-	-	1,845
Inventories	19,203	-	-	19,203
Restricted current assets				
Cash and cash equivalents	486,445	100,595	14,449	601,489
Investments	380,546	24,557	13,992	419,095
Accounts receivable	4,822	13,182	-	18,004
Accrued interest receivable	2,978	891	118	3,987
Total current assets	1,292,421	139,225	28,559	1,460,205
Noncurrent assets				
Investments				
Investments	425,849	-	-	425,849
Investments restricted	661,031	133,147	35,816	829,994
Total investments	1,086,880	133,147	35,816	1,255,843
Capital assets not being depreciated				
Land and intangibles	442,257	-	-	442,257
Assets under construction	2,288,309	-	-	2,288,309
Capital assets being depreciated				
Buildings	987,325	-	-	987,325
Improvements other than buildings	160,973	-	-	160,973
Equipment	581,800	-	-	581,800
Infrastructure	8,964,668	-	-	8,964,668
Total capital assets before accumulated depreciation	13,425,332	-	-	13,425,332
Less: Accumulated depreciation	6,749,286	-	-	6,749,286
Total capital assets after accumulated depreciation	6,676,046	-	-	6,676,046
Other assets				
Prepaid bond insurance costs	4,499	13	1,024	5,536
Other assets	27,084	-	-	27,084
Total other assets	31,583	13	1,024	32,620
Total noncurrent assets	7,794,509	133,160	36,840	7,964,509
Total assets	9,086,930	272,385	65,399	9,424,714
Deferred outflows of resources from hedging derivatives	41,396	-	77,662	119,058
Deferred outflows of resources from refunding bonds	282,872	9,792	12,884	305,548
Deferred outflows of resources from pensions	50,676	-	-	50,676
Deferred outflows of resources from OPEB	70,674	-	-	70,674
Total deferred outflows of resources	445,618	9,792	90,546	545,956
Total assets and deferred outflows of resources	$ 9,532,548	$ 282,177	$ 155,945	$ 9,970,670

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Section Information *(continued)*
Schedule of Net Position – Business-type activities *(continued)*

	May 31, 2021			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
Current liabilities				
Accounts payable and accrued liabilities	$ 494,410	$ 51,995	$ 2,832	$ 549,237
Current portion of debt	450,455	19,670	10,045	480,170
Unearned income	105,702	-	-	105,702
Total current liabilities	1,050,567	71,665	12,877	1,135,109
Noncurrent liabilities				
Debt, less current portion, net of unamortized premium	13,860,817	1,113,396	349,147	15,323,360
Net pension liability	288,472	-	-	288,472
Net OPEB liability	14,791	-	-	14,791
Other noncurrent liabilities	194,848	-	84,080	278,928
Total noncurrent liabilities	14,358,928	1,113,396	433,227	15,905,551
Total liabilities	15,409,495	1,185,061	446,104	17,040,660
Deferred inflows of resources from hedging derivatives	7,688	-	-	7,688
Deferred inflows of resources from service concession arrangements	101,028	-	-	101,028
Deferred inflows of resources from refunding bonds	7,078	1,337	-	8,415
Deferred inflows of resources from pensions	83,563	-	-	83,563
Deferred inflows of resources from OPEB	4,284	-	-	4,284
Total deferred inflows of resources	203,641	1,337	-	204,978
Total liabilities and deferred inflows of resources	15,613,136	1,186,398	446,104	17,245,638
NET POSITION				
Net investment in capital assets	367,608	(1,131,750)	(351,703)	(1,115,845)
Restricted for construction purposes	-	215,303	61,544	276,847
Restricted for debt service	33,687	12,226	-	45,913
Unrestricted	(6,481,883)	-	-	(6,481,883)
Total net position	$ (6,080,588)	$ (904,221)	$ (290,159)	$ (7,274,968)

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Section Information *(continued)*
Schedule of Revenues, Expenses, and Changes in Net Position – Business-type activities

	May 31, 2021			
	Mainline	**Oil Franchise**	**Motor License**	**Total**
	(In Thousands)			
Operating revenue				
Net fares	$ 1,190,419	$ -	$ -	$ 1,190,419
Other	41,130	-	-	41,130
Total operating revenue	1,231,549	-	-	1,231,549
Operating expenses				
Cost of services	501,782	7,599	-	509,381
Depreciation	373,924	-	-	373,924
Total operating expenses	875,706	7,599	-	883,305
Operating income (loss)	355,843	(7,599)	-	348,244
Nonoperating revenue (expenses)				
Investment earnings (losses)	10,759	4,678	(101)	15,336
Other nonoperating revenue	8,384	4,612	-	12,996
Act 44 and Act 89 payments to PennDOT	(450,000)	-	-	(450,000)
Capital assets transferred to the Commonwealth	(2,769)	-	-	(2,769)
Interest and bond expense	(606,116)	(47,761)	(17,897)	(671,774)
Nonoperating expenses, net	(1,039,742)	(38,471)	(17,998)	(1,096,211)
Loss before capital contributions	(683,899)	(46,070)	(17,998)	(747,967)
Capital contributions	11,969	124,178	28,000	164,147
(Decrease) increase in net position	(671,930)	78,108	10,002	(583,820)
Net position, at beginning of year	(5,646,186)	(744,801)	(300,161)	(6,691,148)
Intersection transfers	237,528	(237,528)	-	-
Net position, at end of year	$ (6,080,588)	$ (904,221)	$ (290,159)	$ (7,274,968)

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Section Information *(continued)*
Schedule of Cash Flows – Business-type activities

	May 31, 2021			
	Mainline	Oil Franchise	Motor License	Total
		(In Thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customer tolls and deposits	$ 1,196,461	$ -	$ -	$ 1,196,461
Cash payments for goods and services	(388,620)	(5,881)	-	(394,501)
Cash payments to employees	(152,545)	(1,779)	-	(154,324)
Cash received from other operating activities	9,082	-	-	9,082
Net cash provided by (used in) operating activities	664,378	(7,660)	-	656,718
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	2,416,147	279,284	51,057	2,746,488
Interest received on investments	19,544	5,126	665	25,335
Purchases of investments	(2,655,856)	(133,383)	(51,399)	(2,840,638)
Net cash (used in) provided by investing activities	(220,165)	151,027	323	(68,815)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital grants received from other governments	1,262	-	-	1,262
Proceeds from Motor License Registration fees	-	-	28,000	28,000
Proceeds from Oil Company Franchise Tax	-	114,176	-	114,176
Construction and acquisition of capital assets	(405,105)	(241,498)	-	(646,603)
Proceeds from sale of capital assets	2,431	-	-	2,431
Payments for bond and swap expenses	(7,275)	(40)	-	(7,315)
Payments for cash defeasances	(66,225)	-	-	(66,225)
Payments for debt refundings	(225,000)	-	-	(225,000)
Payments for bond maturities	(435)	(18,720)	(9,545)	(28,700)
Repayment of EB-5 Loan	(200,442)	-	-	(200,442)
Interest paid on debt	(261,865)	(52,384)	(18,284)	(332,533)
Interest subsidy from Build America Bonds	24,719	6,914	-	31,633
Proceeds from draw on line of credit	150,000	-	-	150,000
Repayment of draw on line of credit	(150,000)	-	-	(150,000)
Proceeds from debt issuances	936,604	-	-	936,604
Net cash (used in) provided by capital and related financing activities	(201,331)	(191,552)	171	(392,712)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash payments to PennDOT	(450,000)	-	-	(450,000)
Payments for bond and swap expenses	(2,744)	-	-	(2,744)
Payments for cash defeasances	(43,092)	-	-	(43,092)
Payments for debt refundings	-	-	-	-
Payments for debt maturities	(13,075)	-	-	(13,075)
Interest paid on debt	(297,054)	-	-	(297,054)
Proceeds from debt issuances	531,612	-	-	531,612
Net cash used in noncapital financing activities	(274,353)	-	-	(274,353)
(Decrease) increase in cash and cash equivalents	(31,471)	(48,185)	494	(79,162)
Cash and cash equivalents at beginning of year	743,595	148,780	13,955	906,330
Cash and cash equivalents at end of year	$ 712,124	$ 100,595	$ 14,449	$ 827,168

	May 31, 2021			
	Mainline	Oil Franchise	Motor License	Total
		(In Thousands)		
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	$ 355,843	$ (7,599)	$ -	$ 348,244
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	373,924	-	-	373,924
Change in operating assets and liabilities				
Accounts receivable	(52,669)	-	-	(52,669)
Inventories	5,482	-	-	5,482
Other assets	(16)	-	-	(16)
Deferred outflows of resources from pensions	(12,839)	-	-	(12,839)
Deferred outflows of resources from OPEB	(42,959)	-	-	(42,959)
Accounts payable and accrued liabilities	25,611	(126)	-	25,485
Net pension liability	(40,717)	-	-	(40,717)
Net OPEB liability	12,946	-	-	12,946
Other noncurrent liabilities	(142)	65	-	(77)
Deferred inflows of resources from pensions	41,071	-	-	41,071
Deferred inflows of resources from OPEB	(1,157)	-	-	(1,157)
Net cash provided by (used in) operating activities	$ 664,378	$ (7,660)	$ -	$ 656,718
Reconciliation of cash and cash equivalents to the statements of net position				
Cash and cash equivalents	$ 225,679	$ -	$ -	$ 225,679
Restricted cash and cash equivalents	486,445	100,595	14,449	601,489
Total cash and cash equivalents	$ 712,124	$ 100,595	$ 14,449	$ 827,168

Noncash Investing, Capital and Related Financing and Noncapital Financing Activities

The Commission recorded a net decrease of $10.1 million in the fair value of its investments not reported as cash equivalents for the year ended May 31, 2021. Decreases by section were: Mainline, $8.6 million; Oil Franchise, $0.8 million; and Motor License, $0.7 million.

The Commission recorded $58.9 million for the amortization of bond premium for the year ended May 31, 2021. Amortization by section was: Mainline, $50.8 million; Oil Franchise, $7.2 million; and Motor License, $0.9 million.

As indicated in Note 7 to the financial statements (Debt), the Commission refunded and cash defeased various bonds in fiscal year 2021. The fiscal year 2021 refundings and cash defeasances resulted in a $5.8 million reclassification from Mainline bond premiums (discounts) to deferred inflows of resources from refundings. Additionally, the Commission recorded $64.5 million for the amortization of deferred outflows/inflows of resources from refunding bonds for the year ended May 31, 2021. Amortization by section was: Mainline, $63.1 million; Oil Franchise, $0.5 million; and Motor License, $0.9 million.

The Commission recorded $0.3 million for the amortization of prepaid bond insurance costs for the year ended May 31, 2021. Amortization by section was: Mainline, $0.2 million; and Motor License, $0.1 million.

Noncash Investing, Capital and Related Financing and Noncapital Financing Activities *(continued)*

The Commission recorded an interest expense reduction of $5.7 million in the Mainline section and $0.2 million in the Motor License section for the year ended May 31, 2021 related to GASB Statement No. 53 entries.

The Commission recognized total capital contributions of $164.1 million for fiscal year ended May 31, 2021. Cash received of $143.4 million for fiscal year ended May 31, 2021 is reported in the capital and related financing activities of this schedule. The $20.7 million difference between capital contributions and cash received is the result of a $4.9 million net decrease in Mainline receivables and a $10.0 million net decrease in Oil Franchise receivables related to these capital contributions and a $5.8 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 provided the capital for the reconstruction in exchange for lower rental rates. See Note 2 to the financial statements for further discussion on capital contributions and Note 6 to the financial statements for further discussion on the service plazas.

During fiscal year 2021, the Commission transferred portable radios with a book value of $2.8 million to the Pennsylvania State Police.

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, 2021 were: to Mainline, $237.5 million and from Oil Franchise, $237.5 million.

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Section Information *(continued)*
Schedule of Net Position – Business-type activities

	May 31, 2020			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current assets:				
Cash and cash equivalents	$ 198,564	$ -	$ -	$ 198,564
Investments	78,655	-	-	78,655
Accounts receivable	65,631	-	-	65,631
Accrued interest receivable	2,066	-	-	2,066
Inventories	24,685	-	-	24,685
Restricted current assets				
Cash and cash equivalents	545,031	148,780	13,955	707,766
Investments	295,525	28,984	17,077	341,586
Accounts receivable	-	3,180	-	3,180
Accrued interest receivable	11,148	3,745	156	15,049
Total current assets	1,221,305	184,689	31,188	1,437,182
Noncurrent assets				
Investments				
Investments	354,491	-	-	354,491
Investments restricted	556,700	275,631	33,118	865,449
Total investments	911,191	275,631	33,118	1,219,940
Capital assets not being depreciated				
Land and intangibles	425,643	-	-	425,643
Assets under construction	1,788,685	-	-	1,788,685
Capital assets being depreciated				
Buildings	983,739	-	-	983,739
Improvements other than buildings	151,066	-	-	151,066
Equipment	706,803	-	-	706,803
Infrastructure	8,946,265	-	-	8,946,265
Total capital assets before accumulated depreciation	13,002,201	-	-	13,002,201
Less: Accumulated depreciation	6,592,200	-	-	6,592,200
Total capital assets after accumulated depreciation	6,410,001	-	-	6,410,001
Other assets				
Prepaid bond insurance costs	4,763	18	1,094	5,875
Other assets	26,646	-	-	26,646
Total other assets	31,409	18	1,094	32,521
Total noncurrent assets	7,352,601	275,649	34,212	7,662,462
Total assets	8,573,906	460,338	65,400	9,099,644
Deferred outflows of resources from hedging derivatives	120,084	-	97,070	217,154
Deferred outflows of resources from refunding bonds	319,193	10,714	13,816	343,723
Deferred outflows of resources from pensions	37,837	-	-	37,837
Deferred outflows of resources from OPEB	27,715	-	-	27,715
Total deferred outflows of resources	504,829	10,714	110,886	626,429
Total assets and deferred outflows of resources	$ 9,078,735	$ 471,052	$ 176,286	$ 9,726,073

Schedule of Net Position – Business-type activities *(continued)*

	May 31, 2020			
	Mainline	**Oil Franchise**	**Motor License**	**Total**
	(In Thousands)			
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
Current liabilities				
Accounts payable and accrued liabilities	$ 457,609	$ 56,597	$ 3,034	$ 517,240
Current portion of debt	545,615	18,720	9,545	573,880
Unearned income	90,369	-	-	90,369
Total current liabilities	1,093,593	75,317	12,579	1,181,489
Noncurrent liabilities				
Debt, less current portion, net of unamortized premium	12,884,059	1,138,797	360,164	14,383,020
Net pension liability	329,189	-	-	329,189
Net OPEB liability	1,845	-	-	1,845
Other noncurrent liabilities	252,023	(66)	103,704	355,661
Total noncurrent liabilities	13,467,116	1,138,731	463,868	15,069,715
Total liabilities	14,560,709	1,214,048	476,447	16,251,204
Deferred inflows of resources from service concession arrangements	106,450	-	-	106,450
Deferred inflows of resources from refunding bonds	9,829	1,805	-	11,634
Deferred inflows of resources from pensions	42,492	-	-	42,492
Deferred inflows of resources from OPEB	5,441	-	-	5,441
Total deferred inflows of resources	164,212	1,805	-	166,017
Total liabilities and deferred inflows of resources	14,724,921	1,215,853	476,447	16,417,221
NET POSITION				
Net investment in capital assets	564,948	(1,106,604)	(361,433)	(903,089)
Restricted for construction purposes	-	350,041	61,272	411,313
Restricted for debt service	30,857	11,762	-	42,619
Unrestricted	(6,241,991)	-	-	(6,241,991)
Total net position	$ (5,646,186)	$ (744,801)	$ (300,161)	$ (6,691,148)

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Section Information *(continued)*
Schedule of Revenues, Expenses, and Changes in Net Position – Business-type activities

	May 31, 2020			
	Mainline	**Oil Franchise**	**Motor License**	**Total**
	(In Thousands)			
Operating revenue				
Net fares	$ 1,247,779	$ -	$ -	$ 1,247,779
Other	36,004	-	-	36,004
Total operating revenue	1,283,783	-	-	1,283,783
Operating expenses				
Cost of services	530,740	3,191	-	533,931
Depreciation	382,088	-	-	382,088
Total operating expenses	912,828	3,191	-	916,019
Operating income (loss)	370,955	(3,191)	-	367,764
Nonoperating revenue (expenses)				
Investment earnings	64,177	23,889	2,279	90,345
Other nonoperating revenues	18,091	4,602	-	22,693
Act 44 and Act 89 payments to PennDOT	(450,000)	-	-	(450,000)
Capital assets transferred to the Commonwealth	(294)	-	-	(294)
Interest and bond expense	(585,828)	(48,601)	(18,472)	(652,901)
Nonoperating expenses, net	(953,854)	(20,110)	(16,193)	(990,157)
Loss before capital contributions	(582,899)	(23,301)	(16,193)	(622,393)
Capital contributions	11,688	133,798	28,000	173,486
(Decrease) increase in net position	(571,211)	110,497	11,807	(448,907)
Net position, at beginning of year	(5,333,360)	(595,913)	(312,968)	(6,242,241)
Intersection transfers	258,385	(259,385)	1,000	-
Net position, at end of year	$ (5,646,186)	$ (744,801)	$ (300,161)	$ (6,691,148)

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Section Information *(continued)*
Schedule of Cash Flows – Business-type activities

	May 31, 2020			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customer tolls and deposits	$ 1,275,558	$ -	$ -	$ 1,275,558
Cash payments for goods and services	(353,071)	(1,089)	-	(354,160)
Cash payments to employees	(159,661)	(2,100)	-	(161,761)
Cash received from other operating activities	16,572	-	-	16,572
Net cash provided by (used in) operating activities	779,398	(3,189)	-	776,209
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	3,212,888	957,528	8,694	4,179,110
Interest received on investments	27,965	6,560	1,134	35,659
Purchases of investments	(3,403,790)	(735,947)	(11,105)	(4,150,842)
Net cash (used in) provided by investing activities	(162,937)	228,141	(1,277)	63,927
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital grants received from other governments	5,845	-	-	5,845
Proceeds from Motor License Registration fees	-	-	28,000	28,000
Proceeds from Oil Company Franchise Tax	-	141,665	-	141,665
Intersection cash transfer for debt defeasance	-	(1,000)	1,000	-
Construction and acquisition of capital assets	(404,188)	(255,237)	-	(659,425)
Proceeds from sale of capital assets	2,057	-	-	2,057
Payments for bond and swap expenses	(5,078)	(40)	-	(5,118)
Payments for debt refundings	(574,829)	-	-	(574,829)
Payments for debt maturities	(81,100)	(18,980)	(9,070)	(109,150)
Interest paid on debt	(257,098)	(54,807)	(18,806)	(330,711)
Interest subsidy from Build America Bonds	8,232	2,301	-	10,533
Swap suspension payments received	2,443	-	-	2,443
Proceeds from debt issuances	1,073,553	-	-	1,073,553
Net cash (used in) provided by capital and related financing activities	(230,163)	(186,098)	1,124	(415,137)
CASH FLOWS FROM NONCAPITAL FINANCING				
Cash payments to PennDOT	(900,000)	-	-	(900,000)
Payments for bond and swap expenses	(8,636)	-	-	(8,636)
Payments for cash defeasances	(51,164)	-	-	(51,164)
Payments for debt refundings	(481,197)	-	-	(481,197)
Payments for debt maturities	(76,905)	-	-	(76,905)
Interest paid on debt	(285,859)	-	-	(285,859)
Proceeds from debt issuances	1,285,176	-	-	1,285,176
Net cash used in noncapital financing activities	(518,585)	-	-	(518,585)
(Decrease) increase in cash and cash equivalents	(132,287)	38,854	(153)	(93,586)
Cash and cash equivalents, at beginning of year	875,882	109,926	14,108	999,916
Cash and cash equivalents, at end of year	$ 743,595	$ 148,780	$ 13,955	$ 906,330

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Section Information *(continued)*
Schedule of Cash Flows – Business-type activities *(continued)*

	May 31, 2020			
	Mainline	Oil Franchise	Motor License	Total
		(In Thousands)		
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	$ 370,955	$ (3,191)	$ -	$ 367,764
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	382,088	-	-	382,088
Change in operating assets and liabilities				
Accounts receivable	12,989	-	-	12,989
Inventories	(5,395)	-	-	(5,395)
Other assets	(7)	-	-	(7)
Deferred outflows of resources from pensions	38,855	-	-	38,855
Deferred outflows of resources from OPEB	11,610	-	-	11,610
Accounts payable and accrued liabilities	12,650	2	-	12,652
Net pension liability	(56,632)	-	-	(56,632)
Net OPEB liability	(11,089)	-	-	(11,089)
Other noncurrent liabilities	1,456	-	-	1,456
Deferred inflows of resources from pensions	20,961	-	-	20,961
Deferred inflows of resources from OPEB	957	-	-	957
Net cash provided by (used in) operating activities	$ 779,398	$ (3,189)	$ -	$ 776,209
Reconciliation of cash and cash equivalents to the statements of net position				
Cash and cash equivalents	$ 198,564	$ -	$ -	$ 198,564
Restricted cash and cash equivalents	545,031	148,780	13,955	707,766
Total cash and cash equivalents	$ 743,595	$ 148,780	$ 13,955	$ 906,330

Noncash Investing, Capital and Related Financing and Noncapital Financing Activities

The Commission recorded a net increase of $50.7 million in the fair value of its investments not reported as cash equivalents for the year ended May 31, 2020. Increases by section were: Mainline, $32.3 million; Oil Franchise, $17.3 million; and Motor License $1.1 million.

The Commission recorded $57.7 million for the amortization of bond premium for the year ended May 31, 2020. Amortization by section was: Mainline, $49.6 million; Oil Franchise, $7.1 million; and Motor License, $1.0 million.

As indicated in Note 7 to the financial statements (Debt), the Commission refunded and cash defeased various bonds in fiscal year 2020. The fiscal year 2020 refundings and cash defeasances resulted in a $19.1 million reclassification from Mainline bond premiums (discounts) to deferred outflows of resources from refunding bonds and a $41.7 million reclassification from Mainline bond premiums (discounts) to deferred inflows of resources from refundings. Additionally, the Commission recorded $40.7 million for the amortization of deferred outflows/inflows of resources from refunding bonds for the year ended May 31, 2020. Amortization by section was: Mainline, $39.3 million; Oil Franchise, $0.5 million; and Motor License, $0.9 million.

The Commission recorded $0.3 million for the amortization of prepaid bond insurance costs for the year ended May 31, 2020. Amortization by section was: Mainline, $0.2 million; and Motor License, $0.1 million.

Noncash Investing, Capital and Related Financing and Noncapital Financing Activities *(continued)*

The Commission recorded an interest expense reduction of $3.2 million in the Mainline section and $0.2 million in the Motor License section for the year ended May 31, 2020 related to GASB Statement No. 53 entries.

The Commission recognized total capital contributions of $173.5 million for fiscal year ended May 31, 2020. Cash received of $175.5 million for fiscal year ended May 31, 2020 is reported in the capital and related financing activities of this schedule. The $2.0 million difference between capital contributions and cash received is the result of a $7.8 million net decrease in Oil Franchise receivables related to these capital contributions and a $5.8 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 provided the capital for the reconstruction in exchange for lower rental rates. See Note 2 to the financial statements for further discussion on capital contributions and Note 6 to the financial statements for further discussion on the service plazas.

During fiscal year 2020, the Commission transferred land with a book value of $0.3 million from the Mainline section to the PA Game Commission.

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, 2020 were: to Mainline, $258.4 million; from Oil Franchise, $259.4 million; and to Motor License, $1.0 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, 2021	Mainline Operating	Mainline Capital	Total Mainline	Oil Franchise	Motor License	Total
General and administrative	$ 50,861	$ 115,506	$ 166,367	$ 6,731	$ -	$ 173,098
Traffic engineering and operations	3,396	3,888	7,284	-	-	7,284
Service centers	48,334	-	48,334	-	-	48,334
Employee benefits	86,087	10,321	96,408	868	-	97,276
Toll collection	31,261	938	32,199	-	-	32,199
Normal maintenance	74,890	2,197	77,087	-	-	77,087
Facilities and energy mgmt. operations	11,400	7,110	18,510	-	-	18,510
Turnpike patrol	55,593	-	55,593	-	-	55,593
Total cost of services	$ 361,822	$ 139,960	$ 501,782	$ 7,599	$ -	$ 509,381

Fiscal Year Ended May 31, 2020	Mainline Operating	Mainline Capital	Total Mainline	Oil Franchise	Motor License	Total
General and administrative	$ 52,122	$ 126,510	$ 178,632	$ 1,935	$ -	$ 180,567
Traffic engineering and operations	3,162	2,757	5,919	-	-	5,919
Service centers	41,972	-	41,972	-	-	41,972
Employee benefits	91,161	13,046	104,207	1,256	-	105,463
Toll collection	58,129	1,023	59,152	-	-	59,152
Normal maintenance	64,636	1,448	66,084	-	-	66,084
Facilities and energy mgmt. operations	11,344	9,792	21,136	-	-	21,136
Turnpike patrol	53,638	-	53,638	-	-	53,638
Total cost of services	$ 376,164	$ 154,576	$ 530,740	$ 3,191	$ -	$ 533,931