

## **FITCH RATES PENNSYLVANIA TURNPIKE COMMISSION'S \$530MM BAN'S 'F1+'; AFFIRMS LONG-TERM REVS AT 'AA-'**

Fitch Ratings-New York-24 September 2007: Fitch Ratings assigns an 'F1+' to the following Pennsylvania Turnpike Commission's (PTC or the Commission) turnpike bond anticipation notes (BAN's):

- \$133,750,000 turnpike BAN's, series A of 2007
- \$401,250,000 turnpike BAN's, series B of 2007 (federally taxable).

In addition, Fitch affirms the outstanding 'AA-' on approximately \$1.6 billion of PTC turnpike revenue bonds. The Rating Outlook on the turnpike revenue bonds is Stable. BAN proceeds will be used by the PTC to meet its fiscal year 2008 obligations under Pennsylvania State Legislature HB 1590, titled Act 44. The BAN's are scheduled to sell via negotiation by Citi during the week of October 8th. Fitch expects the BAN's to be insured by a municipal bond insurance policy from a monoline bond insurer, whose financial strength is rated 'AAA' by Fitch.

The 'F1+' short-term rating reflects PTC's solid cash position, financial flexibility, and management's ability to execute a long-term financial strategy to meet its obligations under Act 44 prior to the mandatory redemption of the BAN's on Oct. 15, 2009. The rating also incorporates some, albeit limited, covenants that facilitate a process to begin efforts to take-out the BAN's prior to their final maturity with long-term debt financing.

The 'AA-' long-term rating reflects PTC's vital role in serving the state's major population centers as well as its stable historical traffic and revenue growth, its financial performance that covers all operating and capital needs of the existing mainline facilities, and its economic ratemaking flexibility. The rating also incorporates the significant debt-funded portion of PTC's proposed \$4.7 billion mainline capital improvement plan (CIP) and increasing leverage to subsidize highway and bridge projects across the commonwealth as well as subsidize transit operations under Act 44. Additionally, the risk that the mainline revenue bond security may not be fully insulated from completion risks associated with the Mon/Fayette Expressway and Southern Beltway projects will be an ongoing challenge.

At this time, PTC and the Pennsylvania Department of Transportation (PennDOT) are applying to the US Department of Transportation (USDOT) to convert the portion of I-80 running through Pennsylvania to a toll road. Pursuant to an expected lease between PTC and PennDOT, the turnpike would operate and maintain I-80, charge and collect tolls and make lease payments to PennDOT for a 50 year term. PennDOT would use these payments primarily to fund PennDOT's highway and bridge program. Additional requirements under Act 44 include deposits into a Public Transportation Trust Fund to support the capital and operating needs of the commonwealth's transit agencies. Under Act 44 PTC is obligated to transfer a total of \$750 million in fiscal-year (FY) 2008 (FY end May 31), which will be partially funded through this issuance of BAN's. The annual obligation increases to \$900 million in FY 2010 if a lease for I-80 is entered into, with a 2.5% annual escalator built-in post FY 2010. Annual lease payments are expected to be financed through future bond proceeds and surplus toll revenues. In the event that PTC is unable to place tolls on I-80, the annual obligations to PennDOT would drop to \$450 million annually through the term of the lease.

PTC anticipates meeting its varying annual obligations with a 25% toll increase on the mainline turnpike in 2009 and 3% annual toll increases thereafter for mainline and Act 44. Fitch expects PTC will leverage the additional revenues from toll increases to meet a portion of its annual obligations to PennDOT, with the balance derived from Pennsylvania highway revenue bonds and the balance derived from I-80 toll revenues. The PTC's finance plan is currently under development. Fitch is aware that management is considering a multiple lien debt structure with appropriate covenants and leverage to minimize adverse consequences. Fitch will continue to monitor the PTC's expected plans for additional leverage and its potential impact on senior lien

credit quality.

While there will be a significant increase in debt secured by the net revenues of the turnpike, Fitch recognizes that this is not an acquisition financing with a sizeable upfront payment and significant near-term leveraging. As a result, Fitch more favorably views the act's provisions and the commission's plan for debt issuance over time to support the turnpike and other commonwealth transportation funding needs on an on-going basis.

PTC has maintained strong debt service coverage of 3.9 times (x) and 3.4x in 2006 and 2007 respectively. While coverage levels have been strong, Fitch expects debt service coverage to fall as the PTC manages both existing obligations on the mainline facilities and capital projects contained in its 10-year capital program but also new obligations under Act 44. Revenue growth for FY2005 and FY2006 was strong, increasing 33% and 8%, respectively, to \$545 million and \$588 million, reflecting the toll increase in August 2004 (FY2005). Revenue growth moderated in 2007, increasing to \$592 million, or slightly less than 1%, reflecting minimal traffic growth and no toll increase. Operating and maintenance expenses grew by 5.6% and 5.4%, respectively in fiscal 2006 and 2007, consistent with historical growth rates since 2002.

The PTC is taking on its new obligations in an uncertain political environment. Legislation has been introduced in Congress that could prohibit tolls on I-80. In response to such proposals, Pennsylvania's Governor Rendell has recently reopened consideration for a long-term lease of the Pennsylvania Turnpike to a private operator to generate sufficient funds for the Commonwealth's aforementioned transportation needs. Request for concessionaire qualifications are due by Oct. 1, 2007. While these alternative initiatives at the state and federal levels raised the level of political risk, Fitch expects the PTC's financial exposure to be limited given its lower level of obligations in the event I-80 is not tolled and the expectation that the commission's obligations would be assumed or taken out under a scenario where the turnpike would be leased to a concessionaire. Fitch will continue to monitor the commission's financial plans and obligations as they develop further and will take appropriate action based on the financial plan, borrowing strategy and capital needs.

The Pennsylvania Turnpike is the nation's oldest turnpike. It serves Pennsylvania's mature economy, including the cities of Philadelphia and Pittsburgh, which anchor each end of the state. The turnpike also provides a strategic link in the system of turnpikes that stretches from Chicago to Boston. Not surprisingly, toll revenues benefit from a high proportion of commercial traffic. While this introduces some susceptibility of commercial revenues to economic cycles, the sizable boost to revenues in up-cycles softens the negative financial impact in down-cycles. Interstate 80 extends through northern Pennsylvania for roughly 311 miles from the Delaware Water Gap Bridge over the Delaware River on the Commonwealth's eastern boundary to the Ohio-Pennsylvania state line on its western boundary.

Contact: Chad Lewis +1-212-908-0886 or Scott Trommer +1 212-908-0678, New York

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526.

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