



**Moody's Investors Service**

January 20, 2009

7 World Trade Center at 250 Greenwich Street  
New York, New York 10007

Mr. Nikolaus Grieshaber  
Treasury Manager  
Pennsylvania Turnpike Commission  
P.O Box 67676  
Harrisburg, PA 17106

Dear Mr. Grieshaber:

We wish to inform you that on January 16, 2009, Moody's Investors Service reviewed and assigned a rating of **A2** with a **stable** outlook to Pennsylvania State Turnpike Commission's Turnpike Subordinate Lien Revenue Bonds, Series A of 2009.

In order for us to maintain the currency of our ratings, we request that you provide ongoing disclosure, of current financial and statistical information.

Moody's will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw this rating at any time in the future.

The rating, as well as any revisions or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to verbal requests to Moody's Rating Desk.

Should you have any questions regarding the above, please do not hesitate to contact me 212-553-7241.

Sincerely,

A handwritten signature in black ink, appearing to read 'Maria Matesanz', written in a cursive style.

Maria Matesanz  
Team Leader, U.S. Public Infrastructure

MM: csf  
cc:



Moody's Investors Service

Global Credit Research

New Issue

16 JAN 2009

Save as PDF

**New Issue: Pennsylvania State Turnpike Commission**

**MOODY'S ASSIGNS A2 RATING TO PENNSYLVANIA TURNPIKE COMMISSION'S SUBORDINATE LIEN REVENUE BONDS SERIES A OF 2009 AND AFFIRMS Aa3 RATING ON SENIOR LIEN REVENUE BONDS; RATING OUTLOOK IS STABLE**

**COMMISSION HAS \$3.76 BILLION RATED TURNPIKE BONDS OUTSTANDING**

Toll Roads  
PA

**Moody's Rating**

ISSUE	RATING
Turnpike Subordinate Lien Revenue Bonds, Series A of 2009	A2
<b>Sale Amount</b> \$317,000,000	
<b>Expected Sale Date</b> 01/29/09	
<b>Rating Description</b> Turnpike Subordinate Revenue Bonds	

**Moody's Outlook** Stable

**Opinion**

NEW YORK, Jan 16, 2009 -- Moody's Investors Service has assigned an A2 rating to the Pennsylvania Turnpike Commission's approximately \$317 million Turnpike Subordinate Revenue Bonds, Series A of 2009. We are also affirming our A2 rating on the commission's outstanding turnpike subordinate revenue bonds and our Aa3 rating on the turnpike senior lien bonds. The rating outlook is stable. The last rating action was on October 9, 2008, when the ratings on the outstanding bonds were affirmed.

The ratings consider the diverse market served by the turnpike and its importance to the interstate highway system. The rating also reflects the expected substantial increase in debt the commission will incur to implement its considerable capital plan and to make payments required under Act 44 as well as reduced traffic and revenue growth due to a slowing economy. Also reflected in the rating is the commission's 25% toll increase, implemented January 4, 2009, and plans to implement annual 3% increases to support planned increases in debt. Annual toll rate increases will be a departure from the relatively infrequent toll rate increases the commission has implemented in the past, although the average annual growth in toll rates since 1940 has been approximately 3%.

**USE OF PROCEEDS:** The series A of 2009 bonds are being issued as fixed rate bonds to fund quarterly scheduled Act 44 payments to the Pennsylvania Department of Transportation (PennDOT).

**LEGAL SECURITY:** Subordinate lien bonds are payable from amounts released from the general reserve fund established under the senior indenture after payment of senior indenture obligations.

**INTEREST RATE DERIVATIVES:**

The commission has entered into 16 interest rate swap agreements with several highly rated counterparties under the senior indenture. The swaps are payable, along with certain termination payments, on parity with senior revenue bonds. The total current notional amount of the commission's swaps is \$1.384 billion, including 8 agreements that hedge \$458 million of the commission's outstanding 2001 U and 2002 A variable rate bonds (commission pays a fixed rate and receives 67% of LIBOR) and \$49.47 million of its 2002B bonds (commission pays a fixed rate and receives SIFMA). Additionally, the commission has entered into four basis

swaps (constant maturity swaps) on a notional amount of \$458 million (commission pays 67% of LIBOR and receives 60.08% of 10-year LIBOR). These agreements effectively change the interest rate basis of the commission's agreements that hedge its 2001 U and 2002 A variable rate bonds. The commission also has entered into one agreement where it pays SIFMA and receives a fixed rate on a notional amount of \$118 million that is matched to its 2006 A fixed rate bonds. Finally, the commission entered into three forward starting swaps, for a notional amount of \$300 million, which became effective on June 1, 2008, which hedge a portion of the multi-modal revenue bonds issued in May 2008. These swaps exchange a fixed rate, to be paid by the commission, for the SIFMA swap index, to be paid by the counterparty.

The various swap agreements introduce several credit risks to the commission, including counterparty risk and basis risk (the risk of a mismatch between the rate received on the swaps and the rate paid on the bonds). Moody's expects these risks to be manageable based on the commission's available liquidity; however, maintenance of a strong liquidity position is important for mitigating the risks associated with its swaps. Additionally, the commission could be required to post collateral if the senior lien rating were downgraded to A3 or below and could owe a termination payment if the rating were downgraded below Baa2. While unlikely based on the expected stability of the credit quality of the commission, a downgrade below these triggers could result in a substantial drain on liquidity. Additionally, the termination payments would come ahead of the debt service on the subordinate lien bonds, which could negatively impact debt service coverage and credit quality. All of the swaps are uninsured, except for its 2006 A swap with Citibank. This swap is insured by Ambac (Baa1 with a developing outlook) and required the commission to post collateral once Ambac was downgraded below A3. The mark-to-market of this swap as of October 3, 2008 was a positive \$18.8 million in the commission's favor. The net mark-to-market on all of the commission's swaps was negative \$204 million as of January 9, 2009.

#### CREDIT STRENGTHS

- \*System essential to east-west transportation corridor in eastern U.S. and eastern portion of Pennsylvania
- \*History of well-managed financial operations with consistently sound debt service coverage and strong liquidity
- \*Relatively stable traffic and revenue growth is expected to continue over the long-term
- \*Commission implemented 25% toll increase January 4, 2009 and plans to implement annual increases of 3% annually
- \*Flexibility to delay or scale back portions of the capital improvement program
- \*The commission, through its enabling legislation, has the exclusive right to set tolls and provide for collection
- \*Liquidity, swap, and debt management policies provide enhanced financial controls and demonstrate effective management oversight and focus

#### CREDIT CHALLENGES

- \*Significantly enlarged and accelerated capital improvement program and payments to Penn DoT pursuant to Act 44 will result in substantial increase in total debt; Act 44 payment issued as subordinated obligations
- \*Risk of traffic diversion stemming from planned toll increases
- \*Slowing economy is already negatively impacting traffic and revenues and could result in reduced coverage margins for senior and subordinate debt service
- \*Construction risk associated with extensive \$4.6 billion capital improvement program to completely rebuild major portions of the roadway including cost escalation for labor and materials
- \*Commission is heavy user of variable rate debt, which represents approximately 39% of outstanding debt. While swaps provide hedges for majority of variable rate, these transactions introduce basis and termination risks

#### RECENT DEVELOPMENTS

From June through November 2008 turnpike traffic was down 1.8% and gross toll revenue was down 4.8% compared to the same period in 2007 due to high fuel costs earlier in 2008 and a slowing economy. The higher decline in revenues reflects a steep decline in commercial vehicles that pay higher tolls. Commercial traffic was down 12.3% in November compared to the same month 2007, in part attributable to 2 more weekend days. Over the past 20 years, which includes cumulative toll increases of about 90%, traffic growth has averaged 3.5% for commercial vehicle and 3.3% for passenger cars.

A new independent traffic and revenue study revises forecasted traffic and revenue downward to reflect the slowing economy. Total traffic is projected to decline by 3.2% in 2009, 1.6% in 2010 remain flat in 2011 and grow 3.9% in 2012, then leveling off to about 2% a year. Forecasted growth average annual traffic is 1.9% through 2031, while revenue is forecasted to grow 5.7% annually due to planned toll increases of 3% annually.

The turnpike's fiscal year ending May 31, 2008 with revenues slightly below budget (1.2% or \$7.4 million), and traffic up 2.2% compared to FY 2007. General reserve fund balances declined from \$83.5 million to \$60.4 million largely due to draws to fund capital expenditures. Senior lien debt service coverage for FY 2008 was 2.8x, slightly lower than the 3x that was budgeted due to lower than projected traffic and toll revenue and higher interest rate costs. Unrestricted reserves are expected to increase in 2009 with the recent approval of a 25% toll increase that will become effective January 4, 2009, five months earlier than previously planned.

While senior debt service coverage is projected to remain above 2x under current projections, sustained declines in traffic, along with the substantial increases in planned debt issuance to support Act 44 payments and the commission's capital program, could weaken the credit rating absent additional adjustments to planned toll increases. Over a 1-year forecast period the lowest projected aggregate debt service coverage by net revenues is expected to be approximately 1.30x times through 2018 while senior lien debt service coverage is expected to be around 2.34x times. These coverage numbers include an additional \$2.6 billion in senior lien debt as well as \$4 billion in additional subordinate bonds to meet requirements of Act 44.

Future credit reviews of the commission's credit rating will focus on the commission's ability to achieve its financial projections while complying with the requirements of Act 44, including containing operation and maintenance costs and the adjustment of toll rates which will be critical to supporting this significant leveraging of the system's revenues. Should actual debt service coverage margins be significantly lower than forecasted, the current ratings could face downward pressure.

A request by the commission to the Federal Highway Administration (FHWA) to toll Interstate 80 was not approved as of September 11, 2008, and the commission has not yet determined its future course of action. Under Act 44, if I-80 is not tolled, then the commission's annual payments to PennDOT are reduced to \$450 million a year, from \$850 million in FY 2009, \$900 million in 2010, and escalating at 2.5% annually thereafter.

#### **Outlook**

The stable outlook reflects Moody's expectation that planned toll increases will be implemented in order to maintain sound financial operations and solid debt service coverage levels on both the senior and subordinate bonds, despite the substantial increase in debt. Moody's outlook also reflects our expectation that traffic will grow at modest but stable levels through the forecast period.

#### **What Could Change the Rating - UP**

The ratings could rise if the commission's traffic growth and revenues exceed current expectations, toll increases are implemented as planned and financial and debt service coverage margins are greater than projected.

#### **What Could Change the Rating - DOWN**

The ratings could face downward pressure if toll increases are not implemented as planned or traffic, revenues, or liquidity levels fall short of expectations and reduce debt service coverage margins. The rating would also face downward pressure if future financing costs for both Act 44 payments and capital projects significantly exceed current expectations.

#### **KEY INDICATORS**

System type: Established, multi-asset, regional, combined toll facility

System size: Roadway length is 535 miles (2,604 mainline lane miles)

Total transactions, FY 2008: 189.5 million

Passenger transactions FY 2008 (%): 87%

Compounded annual growth rate (total transactions), FY 2002 - FY 2008: 1.1%

Total toll revenue FY: \$599 million

Passenger revenues (%): 53%

Compounded annual growth rate (toll revenue), FY 2003 - FY 2008: 9.1%

Toll revenue growth 2007-2008: 0.2%

Senior lien debt service coverage (net revenues), FY 2008: 2.8x

Debt ratio, FY 2007: 45.2%

Debt per mile of road length: \$5.6 million (not including I-80)

Toll rate per mile (passenger vehicles): \$0.059

System type: Established, multi-asset, regional, combined toll facility

#### RATED DEBT OUTSTANDING

Outstanding Mainline Debt: \$3.774 billion

Senior Lien: \$2.556 billion

Subordinate Lien: \$1.207 million

Oil Franchise Tax Revenue Bonds (senior and subordinate lien): \$571.0 million

Registration Fee Revenue Bonds: \$447.7 million

Variable rate debt (including synthetic fixed rate): 33% of total mainline debt

#### ISSUER CONTACT

Nikolaus Grieshaber, Chief Financial Officer, (717) 939-9551 x2421

For more information, please see our High Profile New Issue Report published April 10, 2008 as well as our August 18, August 6, July 21, May 30, October 9 new issue and update reports on the turnpike.

The principal methodology used in rating the New York State Thruway Authority's general revenue bonds was "State and Local Government Owned Toll Facilities in the United States," which can be found at [www.moodys.com](http://www.moodys.com) in the Credit Policy and Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy and Methodologies directory.

#### Analysts

Maria Matesanz  
Analyst

Public Finance Group  
Moody's Investors Service

John Ceffalio  
Backup Analyst  
Public Finance Group  
Moody's Investors Service

#### Contacts

Journalists: (212) 553-0376  
Research Clients: (212) 553-1653

**CREDIT RATINGS ARE MIS'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

© Copyright 2009, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at [www.moody.com](http://www.moody.com) under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."