

September 26, 2007

Pennsylvania Turnpike Commission; Toll Roads Bridges

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Credit Profile		
US\$535. mil tpk bnd antic nts ser 2007-A due 10/15/2009		
<i>Short Term Rating</i>	SP-1+	New
Pennsylvania Tpk Comm		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Pennsylvania Tpk Comm tpk (AMBAC)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Pennsylvania Tpk Comm tpk (FGIC)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to Pennsylvania Turnpike Commission's series 2007A turnpike BANs.

At the same time, Standard & Poor's affirmed its 'AA-' rating and underlying rating (SPUR) on the commission's turnpike revenue bonds. The outlook is stable.

The 'SP-1+' short-term rating reflects the strong capacity of the commission to access the market to repay the BANs on their Oct. 15, 2009, maturity date. Although the BANs are being issued on a parity with the commission's turnpike revenue bonds, which are currently rated 'AA-/Stable' by Standard & Poor's, it is expected that the BANs will be paid in full at or before maturity from the proceeds of new subordinated turnpike revenue bonds issued under the indenture or from other funds made available to the commission. BAN proceeds will provide funds to make payments to the Pennsylvania Department of Transportation (PennDOT) in accordance with Act 44 to fund certain grants to mass transit agencies and various road, highway, bridge, and capital projects of PennDOT. These include, but are not limited to, improvements to Interstate 80 and reimbursing the commission for payments previously made to PennDOT in accordance with Act 44.

The 'AA-' SPUR on the commission's turnpike revenue bonds reflects:

- The turnpike's strategic location, with direct links to the New Jersey Turnpike in the east and the Ohio Turnpike in the west;
- Little significant competition from toll-free roads; and
- Consistently stable growth in revenues, resulting in strong historical cash flow coverage of annual debt service that has exceeded 2.3x for fiscals 1998-2007 (ending May 31).

These factors are offset by a relatively high debt burden that is expected to rise significantly with the passage of Act 44 of 2007, which was signed into law on July 18, 2007. In expectation of its rising debt burden, the commission is planning to increase tolls 25% in fiscal 2009 and 3% in each year thereafter to support approximately \$3.1 billion in additional turnpike revenue bonds, \$2.4 billion in subordinate turnpike revenue bonds, and \$4.5 billion in motor license revenue bonds over the next 10 years (fiscals 2008-2017). With the passing of Act 44, the amount of future

turnpike revenue bond proceeds needed to finance a portion of the commission's 10-year, \$4.8 billion (escalated) capital improvement program (CIP) will increase; a greater proportion of operating cash and cash reserves, previously projected to finance a portion of the commission's CIP on a pay-as-you-go basis, will be needed to pay debt service on new subordinate turnpike revenue bonds and new motor license fund bonds (also known as special revenue bonds), which will be junior to the new subordinate turnpike revenue bonds. The commission's ability to implement significant toll rate increases in the past; its ability to consistently maintain strong debt service coverage (DSC) historically; and its plan to implement future toll rate increases while subordinating debt issued to fund PennDOT payments are expected to produce coverage of the commission's turnpike revenue bonds that will be close to, or higher than, historical levels. However, if toll revenue growth does not keep pace with the commission's rising debt burden, producing coverage much lower than historical levels, a rating downgrade or outlook change could occur.

The commission's historical financial performance has been strong, evidenced by pledged revenues exceeding 2.3x coverage of annual debt service for fiscals 1998-2007. Pledged revenues of \$327 million for fiscal 2007 provided about 2.9x coverage of annual debt service.

The turnpike revenue bonds are secured by a first-lien pledge of the net revenues directly associated with operations of the toll road system, which is a large and mature statewide system. The Pennsylvania Turnpike system predominantly consists of the 359-mile-long east/west mainline section (Mainline Section), the 110-mile-long north/south section (Northeast Extension), the 16-mile-long Beaver Valley Expressway, the 13-mile-long Amos K. Hutchinson Bypass, and the completed 23-mile portion of the Mon/Fayette Expressway, on which tolls are being collected. The Mainline Section traverses the southern portion of Pennsylvania and connects the Ohio Turnpike at the system's western terminus with the New Jersey Turnpike at the system's eastern terminus. The Northeast Extension connects the Mainline Section at Plymouth Meeting with the area north of Scranton, Pa., where it connects with Interstate Route 81. Three projects constructed as part of the Mon/Fayette Expressway are in operation: a six-mile toll road between Interstate Route 70 and U.S. Route 40 in Washington County; an eight-mile section of toll road from the Pennsylvania/West Virginia border to Fairchance, which is located just south of Uniontown; and a 17-mile section of the toll road from Interstate 70 in Washington County to Route 51 in Allegheny County. Additionally, the commission recently completed a section of the Southern Beltway from State Route 60 to U.S. Route 22, which opened to traffic on Oct. 11, 2006. These are now part of the turnpike system.

On July 18, 2007, the governor approved Act 44, directing the commission to apply to the U.S. Department of Transportation to convert Interstate 80 to a toll road and to maintain and operate it. Act 44 also directs the commission and PennDOT to enter into a lease agreement relating to Interstate 80 with a 50-year term before Oct. 15, 2007. In addition, Act 44 requires the commission to make certain payments under the lease to PennDOT highway, road, and bridge construction and maintenance programs in the commonwealth, and to make deposits into a public transportation trust fund to be used exclusively for grants to transit agencies for capital projects and operating subsidies for mass transit. More specifically, the commission shall make payments to PennDOT of \$750 million in fiscal 2008, \$850 million in fiscal 2009, and \$900 million in fiscal 2010. In each fiscal year thereafter, the commission's payment to PennDOT is required to increase by 2.5% annually. However, if Interstate 80 is not converted to a toll road, the commission's payments to PennDOT under Act 44 are \$450 million annually.

Interstate 80 traverses northern Pennsylvania for approximately 311 miles, from the Delaware Water Gap Bridge over the Delaware River on the commonwealth's eastern boundary to the Ohio-Pennsylvania state line on its western boundary. Approximately 60%-72% of total traffic on I-80 is made up of trucks. The commission estimates

it would take approximately three years to convert I-80 to a tolled facility, taking into account the time required to obtain various approvals, such as approval from the Federal Highway Administration. Two bond issues would be needed to finance approximately \$1 billion in project costs that would enable tolling and new construction on I-80 over the first 10 years. The commission's current approved \$4.8 billion (escalated) 10-year CIP does not include projects related to I-80, nor does it assume toll revenues from I-80. Tolls on I-80, commencing in 2011, would be set at the same rate as on the turnpike. Annual excess toll revenue from I-80 that would be available to the commonwealth is significant: It is estimated to exceed \$200 million in 2011 and grow thereafter.

The motor license fund bonds would be part of a new special revenue bond program that would leverage only unrestricted motor license fund revenues, which are expected to equal \$2.3 billion in 2008. In addition to these four proposed funding sources, the commission would provide the commonwealth a portion of its excess revenues for certain commonwealth transportation purposes.

The commission's Debt Derivative Profile (DDP) overall score remains unchanged at '1.5' since the commission has not entered into any swaps or terminated any existing swaps since Standard & Poor's last review of the commission's swap portfolio. The overall score of '1.5' reflects our view that the commission's swap portfolio is very low risk. The commission's net variable-rate percent equals approximately 18%, under the 25% limit prudently defined under the commission's official debt-management policy, which has been in effect since May 5, 2004. After the BANs are issued, the commission will have approximately \$2.2 billion in turnpike revenue bonds outstanding, of which approximately \$284 million (13%) is unhedged variable-rate debt and \$118 million is synthetic floating-rate debt.

Outlook

The stable outlook is predicated on the commission prudently managing its CIP and PennDOT payment obligations under Act 44 such that DSC tracks closely to historical levels. An outlook or rating adjustment could occur, however, if DSC falls below historical levels.

Act 44 Of 2007

Approved by the governor on July 18, 2007, Act 44 of 2007 provides much-needed funding for the commonwealth's highway and bridge program, as well as mass transit. More specifically, Act 44 will provide the state with about \$973 million annually for the next 12 years for roads, bridges, and mass transit.

Act 44 directs the commission to make payments to PennDOT of \$750 million in fiscal 2008, \$850 million in fiscal 2009, and \$900 million in fiscal 2010; the amount will increase by 2.5% for each fiscal year thereafter. All required PennDOT payments are subordinate obligations of the commission, payable solely from the general reserve fund after meeting all other turnpike requirements. Of the commission's payments, \$450 million will be designated for roads and bridges in fiscal 2008, \$500 million in fiscal 2009, and \$500 million in fiscal 2010; the amount will increase by 2.5% for each fiscal year thereafter. Of the commission's payments, \$300 million will be deposited in the public transportation trust fund to be used exclusively for mass transit in fiscal 2008; \$350 million will be deposited in fiscal 2009 and \$400 million in fiscal year 2010, with the amount increasing by 2.5% for each fiscal year thereafter.

Annual surplus payments shall be paid by the commission based on the general reserve fund surplus available at the end of each fiscal year, according to a certificate of the auditor general. The first payment to the public transportation trust fund (\$62.5 million) was made on Aug. 6, 2007, from amounts in the commission's general reserve fund. A portion of the series 2007A BAN proceeds will be used to reimburse the commission for this amount.

If conversion of I-80 does not occur, Act 44 directs the commission to make payments totaling \$450 million annually, with \$200 million designated for roads and bridges and \$250 million to be deposited in the public transportation trust fund annually, to be used exclusively for mass transit.

Act 44 also authorizes the issuance of up to \$5 billion of special revenue bonds backed by the commonwealth's motor license fund, with debt service to be paid by the commission and the proceeds used for roads and bridges. The issuance of these special revenue bonds is conditioned upon execution of a lease agreement pertaining to I-80, which the commission expects will be executed by Oct. 15, 2007. No more than \$600 million of special revenue bonds may be issued in any calendar year. The first issue of special revenue bonds is currently expected to occur in March or April 2008, and will total \$450 million. Revenue from the motor license fund secures the special revenue bonds in case available excess toll revenues from the commission are insufficient.

Act 44 also authorizes the execution of a 50-year lease agreement between the commission and PennDOT for the tolling of I-80. The commission has the option to convert I-80 to a toll road and assume legal, financial, and operational responsibility at any time over the next three years. Tolling of I-80 is expected within three years. I-80 will have an open tolling system, with no more than 10 toll collection points. PennDOT expects to save more than \$100 million per year on operations and maintenance for I-80, which will be paid by tolls. Service plazas are not permitted in the right-of-way along I-80. Approximately \$1 billion of improvements to I-80 are projected over the next 10 years, with tolls to be charged at the same rates as on the Mainline. Federal funds apportioned to the commonwealth will not decrease as a result of tolling I-80.

Act 44 requires a financial plan be filed annually with the secretary of the budget no later than June 1 of each year. Also required are quarterly reports and periodic updates regarding the conversion of I-80 to the chairman and minority chairman of the House and Senate Transportation Committees; traffic studies to quantify any diversion of traffic from I-80 to other roadways as a result of the conversion; and an audit by the auditor general every four years, to be paid for by the commission. Act 44 also directs to commission to adopt a comprehensive code of conduct for commissioners and executive-level employees.

Opposition To Tolling I-80 And The Governor's RFQ

U.S. representatives whose districts are served by I-80 have urged the secretary of transportation not to approve any application from the commission and PennDOT to convert I-80 to a toll road. Additionally, legislation has been introduced in the U.S. Congress that could affect efforts to convert I-80 to a toll road, including (without limitation) the fiscal 2008 appropriations bill for the U.S. Department of Transportation, which has passed the U.S. House of Representatives and includes an amendment offered by two Pennsylvania representatives that would prohibit the use of federal funds to affect the tolling of I-80.

As an added precaution in case the tolling of I-80 does not occur, the governor of Pennsylvania issued a request on Sept. 5, 2007, for Pennsylvania Turnpike concessionaire qualifications (RFQ), soliciting interested potential bidders

on a potential long-term lease and concession agreement to operate the Pennsylvania Turnpike. Each potential bidder must provide detailed information on its team, its toll road operations experience and capabilities, its customer service record, its experience with safety issues, and its financial capabilities by Oct. 1, 2007. Despite the passage of Act 44 of 2007, the governor has stated his desire to reconsider a public-private partnership with respect to the turnpike as a means of funding new transportation improvements. Any long-term lease and concession of the turnpike would, however, require approval from the Pennsylvania General Assembly. Regardless of whether any lease of the turnpike to a private concessionaire occurs, the 2007 BANs are expected to be paid in full at or before maturity from the proceeds of new subordinated turnpike revenue bonds issued under the indenture or other funds available to the commission from a privatization transaction.

Ratings Detail (As Of September 26, 2007)		
Pennsylvania Tpk Comm tpke VRDB ser 2006B & 2006C (AMBAC)		
<i>Long Term Rating</i>	AAA/A-1+/Stable	Affirmed
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Pennsylvania Tpk Comm tpk bnd antic nts ser 2007-A due 10/15/2009		
<i>Short Term Rating</i>	SP-1+	New Rating
Pennsylvania Tpk Comm tpk rev rfdg bnds ser 2001S dtd 05/01/2001 due 06/01/2002-2015		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<i>Unenhanced Rating</i>	NR(SPUR)	
Pennsylvania Tpk Comm var rate dem rev bnds ser 2001U dtd 09/06/2001 due 12/01/2019		
<i>Long Term Rating</i>	AA-/A-1+/Stable	Affirmed
Pennsylvania Tpk Comm var rate dem tpk rev bnds ser 2002A-1 dtd 09/05/2002 due 12/01/2030		
<i>Long Term Rating</i>	AA-/A-1+/Stable	Affirmed
Pennsylvania Tpk Comm var rate dem tpk rev bnds ser 2002A-2 dtd 09/05/2002 due 12/01/2032		
<i>Long Term Rating</i>	AA-/A-1+/Stable	Affirmed
Pennsylvania Tpk Comm var rate dem tpk rev bnds ser 2002A-3 dtd 09/05/2002 due 12/01/2030		
<i>Long Term Rating</i>	AA-/A-1+/Stable	Affirmed
Pennsylvania Tpk Comm var rt dem tpk rev bnds ser 2002B dtd 09/05/2002 due 12/01/2012		
<i>Long Term Rating</i>	AA-/A-1+/Stable	Affirmed

Many issues are enhanced by bond insurance.

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