Our Mission:

To operate
and manage
a safe, reliable,
cost effective
and valued
toll road
system.

Pennsylvania Turnpike Commission

America's First Superhighway

Engineering Department
P. O. Box 67676 • Harrisburg, PA 17106-7676
Phone 717-939-9551 • Fax 717-986-8742

November 14, 2007

Mr. James Hassinger, President & CEO
Southwestern Pennsylvania Commission
425 Sixth Avenue, Suite 2500
Pittsburgh, PA 15219-1852

Attention: Charles DiPietro

Re: 2007 Transportation Improvement Program (TIP)
2035 Long Range Plan (LRP)
Southern Beltway, US 22 to I-79 Project

Dear Mr. DiPietro:

The General Assembly of the Commonwealth of Pennsylvania enacted Act 44 relating to Transportation in the Commonwealth to fund highways, bridges and mass transit. As a result of Act 44, the Pennsylvania Turnpike Commission (PTC) has the authority to raise revenues to meet the obligations of that Act as well as any other obligations relating to the mainline of the Pennsylvania Turnpike and its extensions. The clarification of the Turnpike Commission's authority to raise revenues is sufficient for the Commission to commit funding for the design and ultimate construction of the US 22 to I-79 Southern Beltway project.

Currently, the Commission has dedicated approximately $66 million dollars for the design and right way phases for the US 22 to I-79 project. The right of way phase is estimated to cost $37 million while the design phase is estimated at $52 million. The design schedule is normally a three year activity while right of way acquisition can usually start 9 to12 months after the start of design. Under this schedule, the Commission has sufficient funds to proceed with these phases of the project development for approximately two years before bonding of additional revenue is necessary to complete this project.

The total cost of the US 22 to I-79 Southern Beltway project is $659 million in year of expenditure dollars. Allocations from the PTC to the US 22 to I-79 project totals $76 million, federal earmarks $5 million, thus leaving a balance of $578 million that would be provided by bonding of PTC revenues. Bonding for the $578 million would require approximately $45 to $50 million annually for 30 years. The PTC has both the statutory authority and financial capacity to fund all phases of the US 22 to I-79 Southern Beltway project, at the appropriate time, and will include this amount in calculating the adjustments to the revenues that are required to meet the PTC obligations under Act 44. There is sufficient flexibility in the bonding coverage ratios with the mainline toll increase of 25% in 2009 and 3% annually, thereafter, to fund the US 22 to I-79 Southern Beltway project. Three credit agency reports from Fitch, Moody's and Standard and Poor for a recent PTC bond issue of $535 million are attached for your information. A financial plan is also attached for your consideration.

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Further, there is considerable public support for the US 22 to I-79 project. Local and State elected officials in Southwestern Pennsylvania strongly support the completion of the project that will reduce congestion in the City of Pittsburgh by providing an alternate route to the Pittsburgh International Airport and to points west of Pittsburgh. In addition, the Chief Executive Officer of the Turnpike Commission, Joe Brimmeier, and the Turnpike Commissioners have expressed support for the completion of the US 22 to I-79 Southern Beltway project.

In view of the wide support and importance of this project to Southwestern Pennsylvania, we request that the SPC include the US 22 to I-79 Southern Beltway project in the TIP, Twelve Year Program and the 2035 Long Range Transportation Development Plan. If you have any questions regarding the attached information, please contact Mr. Tim Smith at 717-920-7259.

Sincerely,

Frank Kempf

Frank J. Kempf, Jr., P.E.
Chief Engineer

FJK/TJS

Pennsylvania Turnpike Commission
Southern Beltway, US 22 to I-79 Project
Financial Plan in Year of Expenditure
November 13, 2007

Act 44, Chapter 81, Relating to Turnpike Organization, Extension and Toll Road Conversion

Act 44, Section 8116, Subsection (a), Establishment and changes in toll amounts, stipulate "....The Commission is authorized to fix and revise tolls for the use of the Pennsylvania Turnpike system and the different parts or sections of the system, including the turnpike, **the turnpike extensions** and improvements and the toll road conversions authorized by this chapter...... Tolls **shall be fixed and adjusted to provide funds at least sufficient with other revenues of the Pennsylvania Turnpike System**, **if any, to pay all of the following:** (1) The cost of the turnpikes. This paragraph includes the cost of **constructing**, reconstructing, widening, **expanding,** maintaining, repairing and operating the Pennsylvania Turnpike System and the different parts and sections of the system. ...."

Subsection (b), Restriction on toll revenue stipulates "**Tolls shall not be subject to supervision or regulation by any other State commission, board, bureau or agency. ....**"

This Act gives the Commission authority to raise revenues to meet the Pennsylvania Turnpike Commission obligations. Such revenues include but are not limited to: federal earmarks, state revenue, local revenue or donations, tolls, leases, partnerships, bonds and interest. **However, this financial plan is strictly limited to raising toll revenue that is entirely under direct control of the Turnpike Commission**.

Pennsylvania Turnpike Commission
Southern Beltway, US 22 to I-79 Project
Financial Plan in Year of Expenditure
November 13, 2007

Phase Cost Estimate

US 22 to I-79 Cost Estimate	
Phase	Year of Expenditure Amount (millions)
EIS	$12
Design	$52
Right of way	$37
Utilities	$20
Construction	$492
Construction Management	$46
Total	**$659**

Sources of Funds

Funding Source	**Amount (millions)**
Earmarked federal funds	$5
PTC current assets	$76
PTC resources from bonding	$578
Total	**$659**

2007-2010 Transportation Improvement Program
Estimated Expenditures by Federal Fiscal Year
(millions)

Project	County	Prior to 2007	2008	2009	2010	2011	2012	2013	Total
US 22 to I-79	Washington	$12	$25	$40	$56	$179	$173	$174	**$659**

Pennsylvania Turnpike Commission
Proposed Toll Increase Analysis
November 13, 2007

Fiscal Year Ending May 31		Total PTC Mainline Revenues	Passenger Cars	Trucks
2006		$607,199,152	$0.06	$0.18
2007		$611,343,139	$0.06	$0.18
2008		$624,395,500	$0.06	$0.18
2009		$792,982,285	$0.08	$0.24
2010		$832,631,399	$0.0824	$0.2472
2011		$874,262,969	$0.0849	$0.2546
2012		$917,976,118	$0.0874	$0.2623
2013		$963,874,924	$0.0900	$0.2701

25% Toll Increase in 2009, 3.0% per Annum Thereafter
Growth factor 2.0%

Phase Cost

Phase	Prior to 2008	2008	2009	2010	2011	2012	2013	Total
			($000)					
EIS	$12,000							$12,000
								$0
Design		$15,000	$20,000	$17,000				$52,000
Right of Way		$10,000	$20,000	$7,000				$37,000
Utilities				$9,000	$9,000	$2,000		$20,000
Construction				$20,000	$155,000	$157,000	$160,000	$492,000
Construction Management				$3,000	$15,000	$14,000	$14,000	$46,000
Total	$12,000	$25,000	$40,000	$56,000	$179,000	$173,000	$174,000	$659,000

Cash Flow Projections

Cash	$12,000	$25,000	$39,000					
Interest Earned			$1,000					
Bonds				$56,000	$179,000	$173,000	$174,000	$582,000
Toll Revenue Needed at 13 to 1				$4,308	$13,769	$13,308	$13,385	$44,769

Traffic Volumes & Miles Traveled

Traffic Volume & Miles	2007	2008	2009	2010	2011	2012	2013
Passenger	14,440,280	14,729,086	15,023,667	15,324,141	15,630,623	15,943,236	16,262,101
Trucks	2,369,507	2,416,897	2,465,235	2,514,540	2,564,831	2,616,127	2,668,450
Passenger Miles	392,142,290	399,985,136	407,984,839	416,144,535	424,467,426	432,956,775	441,615,910
Truck Miles	119,322,377	121,708,825	124,143,001	126,625,861	129,158,378	131,741,546	134,376,377

FitchRatings
KNOW YOUR RISK

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-tem 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.

Moody's Investors Service

Global Credit Research
New Issue
4 OCT 2007
Save as PDF

New Issue: Pennsylvania Turnpike Commission

CORRECTION TO TEXT, OCT. 4, 2007 RELEASE: CORRECT AMOUNT OF LEASE PAYMENTS TO PENNDOT IS $83.4 BILLION

Substitute third sentence, tenth paragraph with the following: The commission will provide $83.4 billion to PennDOT over the life of the I-80 lease agreement, or approximately $1.7 billion annually, on average.

Toll Roads
PA

Moody's Rating

ISSUE	**RATING**
Turnpike Bond Anticipation Notes, Series 2007 A & Series B (Federally Taxable)	MIG 1

Sale Amount	$535,000,000
Expected Sale Date	10/16/07
Rating Description	Bond Anticipation Notes

Opinion

NEW YORK, Oct 4, 2007 -- Moody's Investors Service has assigned a MIG 1 rating to the Pennsylvania Turnpike Commission Turnpike Bond Anticipation Notes, Series A of 2007 and Series B of 2007 (Federally Taxable) in the aggregate amount of up to $535 million. In addition, Moody's has affirmed the Aa3 long-term rating and stable outlook on the commission's $1.6 billion in outstanding, turnpike revenue bonds. The MIG 1 rating reflects the commission's long-term Aa3 rating and Moody's expectation of the commission's ability to access the capital markets for long-term take-out financing of the notes. The Aa3 long-term rating reflects the essentiality of the 535 mile system to both the national east-west transportation corridor and the state; the system's long history of solid financial operations, which have demonstrated relative inelasticity during economic downturns; and the expectation of continuing increases in traffic and revenues over the medium to long-term.

USE OF PROCEEDS: The Series 2007 Notes are being issued to provide funds to make payments in accordance with Act 44 to the Public Transportation Trust Fund to fund certain grants to mass transit agencies, payments to Pennsylvania Department of Transportation ("PennDOT") for various road, highway, bridge and other capital projects, and to reimburse the Commission for payments previously made to PennDOT in accordance with Act 44.

LEGAL SECURITY: The notes are secured by net revenues of the system on parity with the commission's turnpike revenue bonds. The commission intends to repay the notes, however, from the proceeds of long term bonds subordinate to turnpike revenue bonds issued under one or more separate indentures. Final maturity of the notes is October 15, 2009.

The turnpike's long-term bonds are secured by net revenues of the system. The commission, through its enabling legislation, has the exclusive right to set tolls and provide for collection. The rate covenant and additional bonds test for the authority's senior lien bonds are satisfactory for toll highways in this rating category. The rate covenant is equal to 1.3 times current parity debt service or sum-sufficient parity maximum annual debt service (MADS) and required transfers to reserve maintenance fund, and sum-sufficient subordinated debt service. The additional bonds test is equal to 1.75 times proposed MADS by historic net revenues or 1.3 times MADS (excluding the new issue) by historic net revenues and 1.3 times proposed MADS by independent consultant projected net revenues. Subordinated debt may be issued provided the rate covenant would have been met taking into account proposed subordinated MADS. Currently, all of the commission's fixed rate bonds have cash funded debt service reserve funds equal to MADS while all variable rate debt does not have debt service reserve funds.

INTEREST RATE DERIVATIVES: None on the current offering.

STRENGTHS

* System provides an essential link in the east-west transportation corridor in the eastern United States and the state

* History of well-managed financial operations with consistently sound debt service coverage

* Implementation of sizeable toll increase generated large increase in revenue with moderate traffic diversion

* Toll revenues dominated by passenger traffic, which is relatively inelastic to economic impacts

* Steady traffic and revenue growth expected to continue over the long-term

* Implementation of liquidity, swap, and debt management policies provide enhanced financial controls

WEAKNESSES

* Uncertainty regarding the tolling of Interstate 80 and the availability of an adequate revenue stream to make required payments to the Public Transportation Trust Fund and PennDOT even if tolling is not allowed on I-80

* Plans for substantial increase in debt to fund significantly enlarged and accelerated capital improvement program

* Construction risk associated with extensive capital improvement program to completely reconstruct major portions of the roadway

* Substantial amount of variable rate debt is mostly hedged with swap agreements and secured with standby bond purchase agreements, but not with debt service reserve funds

MARKET POSITION: TURNPIKE IS AN ESSENTIAL EAST-WEST TRANSPORTATION LINK, FUNDAMENTAL TO STATE ECONOMY

Two of the turnpike's key credit strengths are the diverse markets it serves and its role as an integral part of the interstate highway system in the eastern United States. In addition to being a key regional roadway for the metropolitan areas surrounding Pittsburgh and Philadelphia, the turnpike's 353 mile Mainline Section is a major transportation link between the industrial centers of the Great Lakes region and the Philadelphia area. Interstate 80, the only significant east-west alternative, runs roughly parallel to the turnpike about 70 miles to the north directing traffic towards the metropolitan New York area, but it does not go through any of the state's major population centers. The system also serves the eastern portion of the state via its 110 mile north-south Northeast Extension, which links Philadelphia and Scranton. Another extension now under construction, the nearly completed Mon-Fayette Expressway will connect Pittsburgh airport with the West Virginia border, providing service to a new and currently under-served area of the state.

ACT 44 CREATES NEW "PUBLIC-PUBLIC PARTNERSHIP" BETWEEN THE COMMISSION AND PENNDOT; COMMITS PAYMENTS FOR ROADS, BRIDGES, AND MASS TRANSIT

On July 18, 2007, Act 44 was approved by the Governor of Pennsylvania and took effect immediately. This legislation creates a public-public partnership between the commission and PennDOT to provide funding for roads and bridges, as well as mass transit. Act 44 provides an average of $973 million for the next twelve years for roads and bridges and mass transit. Additionally,

Pursuant to the legislation, the commission is authorized to apply to the United States Department of Transportation to convert Interstate 80 to a toll road. Additionally, Act 44 also directs the commission and PennDOT to enter into a lease agreement relating to Interstate 80 with a 50 year term which requires the commission to make lease payments to PennDOT which will be used for the improvement and expansion of Interstate 80 as well as other PennDOT highway, road and bridge construction and maintenance programs. The commission will provide $83.4 billion to PennDOT over the life of the I-80 lease agreement, or approximately $1.7 billion annually, on average. Act 44 also requires 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.

Act 44 commits the commission to make payments of $750 million in FY 2008, $850 million in FY 2009 and $900 million in FY 2010, which amount will increase by 2.5% for each FY thereafter. Of the commission's payments, $450 million will be designated for roads and bridges in FY 2008, $500 million in fiscal 2009 and $500 million in FY 2010. The commission's payments the Public Transportation Trust Fund will be $300 million FY 2008, $350 million in FY 2009 and $400 million in FY 2010.

If conversion of Interstate 80 does not occur, the commission is only committed 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.

Some uncertainty exists, however, as to whether the conversion of Interstate 80 to a toll road can be accomplished given proposed federal legislation to block the conversion and other opposition, Governor Rendell has revived consideration of leasing the entire turnpike to private entities in order to generate sufficient funds for Pennsylvania's transportation needs. Regardless of whether any lease or concession of the turnpike occurs, the Series 2007 Notes are expected to be paid in full at or before maturity from the proceeds of new subordinated bonds issued under one or more separate indentures, from other funds made available to the commission, or from a privatization transaction.

LONG HISTORY OF STABLE GROWTH IS EXPECTED TO CONTINUE, WITH ECONOMIC DOWNTURNS MITIGATED BY INELASTIC USAGE PATTERNS

From 1997 to 2007, traffic on the turnpike grew at an average of 2.6% annually, which while lower than previous ten-year trends, remains healthy given the maturity of the system. Net toll revenues (which are adjusted for discounts to commercial users) have grown at a higher rate, 6.4% a year since 1997, largely due to a substantial 42.5% toll increase on August 1, 2004 - its first since 1991 and only the fifth in its history. Following flat transactions growth in fiscal 2005 of 0.2% and a decline of 1.3% in fiscal 2006 as a result the toll increases, transactions rebounded slightly by 0.6% in 2007. In 2007 net toll revenues grew at 2.6%.

Usage has been fairly inelastic even during periods of economic stress. Since 1960, over which time transactions grew by 4.1% annually, there have been only five years with actual traffic declines, 1974, 1975, 1980, 1992, and 2006. With the exception of 2006, these declines reflected the effects of increased gas prices resulting from energy crises or economic recessions. The worst decline was during the 1980 energy crisis when traffic fell by 5.6% and revenues by 4.2%, though traffic bounced back the next year by 3.4%.

This relative absence of elasticity is largely a result of the turnpike's usage patterns. While commercial traffic has grown faster since 1991, passenger cars remain dominant and continue to account for 53% of toll revenues and 86% of usage. A significant proportion of this is shorter-distance commuter traffic, particularly in the Pittsburgh and Philadelphia areas. With commuter traffic less elastic than commercial or long-distance passenger traffic, Moody's believes the turnpike's user base will continue to enhance its resilience to economic downturns.

FINANCIAL POSITION: LARGE TOLL INCREASE, STEADY TRAFFIC AND REVENUE GROWTH CONTINUES TO SUPPORT STABLE FINANCIAL OPERATIONSAND SOLID DEBT SERVICE COVERAGE LEVELS

The turnpike's trend of steady traffic growth has allowed the commission to maintain debt service coverage averaging a healthy 3.42 times from 2003 to 2007. Annual debt service coverage by fiscal 2007 net revenues was a healthy 3.25 times. Out year projections - which do not assume the tolling of I-80, but does assume a 25% toll increase in 2009 and annual toll increases of 3%, and annual net revenue growth of 5.5% - indicate debt service coverage averaging 2.71 times through 2017. Moody's notes, however, that these toll increases have not yet been approved by the commission. Using the same assumptions and a lower rate of transactions growth of 2.5%, Moody's estimates that debt service coverage on the turnpike's long-term debt would remain satisfactory at 2.35 times. Future reviews of the turnpike's long-term debt will focus on the commission's ability to achieve its financial projections while complying with the various requirements of Act 44, including the adjustment of rates necessary to meet Act 44 funding requirements.

AMPLE LEVELS OF LIQUIDITY AND SATISFACTORY FINANCIAL RESERVE POLICIES

Moody's believes that the commission's operating margins and satisfactory levels of available cash and investments provide bondholders with additional security. In fiscal 2007, the turnpike's net working capital was a healthy 143.1% of O&M expenses ($354.6 million). Days cash on hand was 351 ($238.3 million in available cash reserves). Additionally, the commission's adopted liquidity standard policy calls for it to maintain available cash balances equal to the greater of maximum annual debt service on bonds not secured with debt service reserve funds or 10% of annual budgeted revenues.

Outlook

The stable outlook reflects Moody's expectation that the recent toll increase will enable the turnpike to maintain its sound financial operations and solid debt service coverage levels despite the increase in debt along with some short-term risk of traffic diversion.

What Could Change the Rating - UP

The rating could rise if the commission's traffic growth and revenues exceed current expectations, and/or the commission is able to increase its level of liquidity.

What Could Change the Rating - DOWN

The rating could face downward pressure if the commission encounters delays and/or cost overruns in the implementation of its CIP; if it embarks on further costly expansion projects that are expected to pressure its financial margins; or if traffic, revenues, and/or liquidity levels fall short of expectations.

KEY STATISTICS

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

System size: Roadway length is 535 miles with a total of 2,604 mainline lane miles

Total transactions, FY 2007: 18.1 million

Average annual growth in total transactions, FY 2002 - FY 2007: 1.6%

Operating ratio, FY 2007: 40.7%

Net working capital as % of operating expenses, FY 2007: 143.1% ($354.6 million)

Annual debt service coverage, FY 2007: 3.25x

Debt ratio, FY 2007: 43.6%

Payout of principal, all debt (10 years): 35.1%

Mainline long-term debt outstanding: $1.6 billion

Total long-term debt outstanding: $2.2 billion

CONTACT

Nikolaus Grieshaber, Director of Treasury Management, (717) 939-9551 x2421

Analysts

Patrick Ford
Analyst
Public Finance Group
Moody's Investors Service

Kurt Krummenacker
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

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

STANDARD & POOR'S

RATINGSDIRECT®

September 26, 2007

Pennsylvania Turnpike Commission; Toll Roads Bridges

Primary Credit Analyst:
Joseph J Pezzimenti, New York (1) 212-438-2038; joseph_pezzimenti@standardandpoors.com

Secondary Credit Analyst:
Kurt Forsgren, Boston (1) 617-530-8308; kurteric_forsgren@standardandpoors.com

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Pennsylvania Turnpike Commission; Toll Roads Bridges

Credit Profile

US$535. mil tpk bnd antic nts ser 2007-A due 10/15/2009 *Short Term Rating*	SP-1+	New
Pennsylvania Tpk Comm *Long Term Rating*	AA-/Stable	Affirmed
Pennsylvania Tpk Comm tpk (AMBAC) *Unenhanced Rating*	AA-(SPUR)/Stable	Affirmed
Pennsylvania Tpk Comm tpk (FGIC) *Unenhanced Rating*	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)		
Long Term Rating	AAA/A-1+/Stable	Affirmed
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Pennsylvania Tpk Comm tpk bnd antic nts ser 2007-A due 10/15/2009		
Short Term Rating	SP-1+	New Rating
Pennsylvania Tpk Comm tpk rev rfdg bnds ser 2001S dtd 05/01/2001 due 06/01/2002-2015		
Long Term Rating	AA-/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
Pennsylvania Tpk Comm var rate dem rev bnds ser 2001U dtd 09/06/2001 due 12/01/2019		
Long Term Rating	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		
Long Term Rating	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		
Long Term Rating	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		
Long Term Rating	AA-/A-1+/Stable	Affirmed
Pennsylvania Tpk Comm var rt dem tpk rev bnds ser 2002B dtd 09/05/2002 due 12/01/2012		
Long Term Rating	AA-/A-1+/Stable	Affirmed

Many issues are enhanced by bond insurance.