

I appreciate the flexibility in scheduling this proceeding and thank Chairman Rafferty and Chairman Geist in accommodating my schedule.

I am hopeful that this testimony will provide the Transportation Committees of the House and Senate with a clearer understanding of our current financial situation.

As an historical backdrop a little history of Act 44 is appropriate.

In 2005, Governor Rendell appointed an independent Transportation Funding and Reform Commission to study Pennsylvania's transportation needs. In 2006, that commission reported that the state confronted a \$1.7 billion annual shortfall—this included needs for both mass transit and highways/bridges—and offered several solutions to raise additional dollars which included a realty transfer tax and oil company franchise tax increase. In December 2006, Governor Rendell issued a call for expressions of interest from firms interested in a Public-Private Partnership involving the lease of the Pennsylvania Turnpike. The PA Turnpike Commission, along with 47 other entities, responded to the expression of interest. As an alternative to a long-term public-private concession, the Commission proposed a public-public partnership with PennDOT to implement a balanced and comprehensive transportation funding strategy for the Commonwealth. The three-part strategy included (1) utilizing the PTC as a conduit for bonding, (2) funding highway and bridge improvements through an expansion of tolling, and (3) funding mass transit through a regional mobility surcharge in designated urban areas.

In May of 2007, the Commonwealth's financial advisor, Morgan Stanley, released a report estimating the potential value of a turnpike lease between \$12-18 billion over 30 years. As an alternative to private leasing, House Bill 1590 (later Act 44 of 2007) was developed in partnership by the House and Senate authorizing a fifty-year partnership between the PTC and PennDOT that would provide over \$86 Billion dollars for investment in transportation. House Bill 1590 met 95% of the funding level that the Governor's Transportation Funding and Reform Commission estimated was needed without increasing taxes or leasing Commonwealth assets. As you are aware, part of the funding under Act 44 would come from implementing tolls on I-80. The state planned to design an open-road toll system that would have minimized the effect on local travelers. Without federal approval of the I-80 plan, the full potential of Act 44 was reduced to \$23 Billion. Today, under a fully-funded Act 44, the Commonwealth would have received \$86 Billion and a \$3 to 3.5 billion investment in I-80 in the first ten years, nearly four times the historic investment by PennDOT.

As for our current financial position, the Commission is not facing a financial crisis. The nation's major rating agencies have not changed their underlying ratings of the Commission's senior bonds for more than three years. Both of the Commission's major bond programs, its senior indenture bonds, which finance capital improvements to the Turnpike system, and its subordinate indenture bonds, through which the Turnpike has provided more than \$3.5 billion to the Pennsylvania Department of Transportation ("PennDOT") for roads, bridges and public-transit throughout the Commonwealth, are assigned strong investment grade ratings by the nation's major rating agencies. Two of the major rating agencies have identified the Commission's financial management as a credit strength contributing to these ratings. Like other major bond issuers in the nation which frequently enter the bond markets, the

Commission's credit is continuously monitored by the rating agencies and other credit analysts. As reported in the financial press, a Pennsylvania-based fixed-income analyst in a January 9, 2012 report stated that payments to PennDOT have been well factored into rating agency and other analyses. This analyst also characterized the Commission as a strong issuer with well-secured bonds.

Beyond the rating agencies, the investor community, consisting of both major institutional investors and retail investors both within and beyond the Commonwealth, has consistently invested in the Commission's bonds—In the case of a recent bond issue we received over \$700 million in orders for \$200 million bonds offered. To be clear the institutional bond market remains very interested in Turnpike bonds. The breadth of the investor classes for the Commission's bonds means that the capital markets are frequently evaluating the Commission's bonds against various criteria, including a view to principal preservation and liquidity. Our investors provide an independent and favorable judgment about the Commission's financial position and prospects.

In point of fact, the continued existence of the Commission is not in jeopardy. The Commission has developed a sound, fiscally responsible approach to meeting all of its financial obligations, including the \$450 million annual payments to PennDOT under Act 44. Last June, the Commission approved a funding plan for all of its financial obligations for the next three years. In addition, in each year since the enactment of Act 44 the Commission has, with the assistance of an independent public financial advisor, prepared and provided to the Secretary of the Budget a financial plan that demonstrates that the operation of the Turnpike system can reasonably be anticipated to result in the Commission's ability to meet its various payment obligations, including those to PennDOT pursuant to Act 44 over the life of the Funding Agreement between the Commission and PennDOT.

The commission is also making prudent use of the savings to our operating budget due to this year's mild winter by placing more than the minimum required payments to our long term employee benefit costs by adding \$25 million to our OPEB Trust fund prior to the adoption of the FY 12-13 budget. This allocation now will help position the Commission for lesser impacts in of this required allocation in future budget cycles.

In a previous correspondence the Auditor General made comparisons to the financial situations in Greece and in the city of Harrisburg, as well as, other dysfunctional financial situations. In stark contrast to these situations, it is in fact the structure and make up of our Board of Commissioners that allows us to take the steps necessary to maintain our financial stability. There is a high level of cooperative spirit and mutual trust among the five members of the Commission and a history of working through problems directly and confronting rather than ignoring potential long term challenges. The Commissioners provide the benefit of their business and professional experience and work collaboratively to arrive at a solution.

The Commission remains in a healthy financial position because it has taken the steps necessary to ensure its financial stability.

In fact, in spite of the pressure from the Act 44 obligation the Commission is expanding its commitment to rebuilding the Turnpike by expanding our 10-year capital plan from \$4.7 billion to \$6.4 billion to continue to enhance the highways and bridges under our jurisdiction.

Since the first Act 44-necessitated toll increase on the Turnpike in 2009, we have made it clear to our customers, to elected officials and to citizens of the Commonwealth that annual rate hikes are needed to fund the Act 44 payment, as witnessed by wide coverage of that topic in the media over the past few weeks. We have been clear in public statements that the increases will be implemented annually to cover the debt-service cost of the payments to PennDOT. A fundamental component of the funding plan discussed above is the Commission's setting of toll rates. The Commission's toll setting has been undertaken in a responsible manner with a view to the concerns of multiple stakeholders. The Commission has demonstrated to investors its willingness to follow through on annual toll increases. For the benefit of the Commission's customers and citizens of the Commonwealth, toll increases, however, have been at levels consistent with those outlined in connection with the establishment of the Act 44 program and previously publicized. The Commission continues to pursue toll-setting so as to encourage increased use of E-ZPass which should continue to contribute to operational efficiencies and cost savings over time. The Commission's toll setting has been undertaken so as to maintain compliance with bond covenants, and provide appropriate resources for operating purposes and pay-as-you-go capital while being predictable.

I am not suggesting in any way that the requirements of Act 44 come without detrimental effects to the Turnpike, we are managing those impacts and are financially well positioned for the coming years. The reality of this situation should be well understood by the legislature and our customers. Nearly all toll revenue generated from the toll increases that began in 2008 have been used to meet the obligations to the Commonwealth.

Managing the Act 44 debt load of the Commission is an ongoing challenge that can only be resolved in a thoughtful and deliberative manner. We acknowledge the payments we make have become an integral part of the overall funding package needed to keep our state's roads, bridges and transit systems functioning sufficiently on a daily basis. We all understand that just stopping the Act 44 program without replacement funding is not in the best interest of any transportation stakeholders, including the PTC.

In the interim, we do not believe any change in the funding allocation between public transit & highways should be considered. Presently the entire Act44 portion of public transit funding is being used to support operations. Currently we blend the borrowing for that funding with highway projects to reduce borrowing costs, as well as to maintain the tax exempt status of our debt. Any increase in the amounts for public transit operations will not only increase our borrowing costs, but seriously affect our prospects of keeping the debt issuance tax exempt.

In summary, we look forward to working with the Legislature and the Governor to further ensure the long-term financial stability of the Commission while understanding that, at the same time, there must also be adequate funding to ensure the safe operation of the state's entire transportation network. As

we have over the past 70 years of our existence, the Commission stands ready to continue its role as a transportation partner to the Commonwealth.

I appreciate the Chairs and members of the House and Senate Transportation Committees providing us with a forum to present the PTC position on its financial stability.

Thank you,

Roger E. Nutt

Chief Executive Officer