



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA TURNPIKE COMMISSION
HARRISBURG PA 17106-7676

JOSEPH G. BRIMMEIER
CHIEF EXECUTIVE OFFICER

September 2, 2008

The Honorable Joseph F. Markosek
House of Representatives
314 Irvis Office Building
P.O. Box 202025
Harrisburg, PA 17120-2025

The Honorable Richard A. Geist
House of Representatives
147 Main Capitol
Harrisburg, PA 17120

The Honorable Roger A. Madigan
Senate of Pennsylvania
286 Main Capitol Building
Harrisburg, PA 17120-3023

The Honorable J. Barry Stout
Senate of Pennsylvania
10 East Wing, Main Capitol Building
Harrisburg, PA 17120

RE: Fourth Quarterly Report

Dear Gentlemen:

Attached please find the Fourth Quarterly Report for the period ending July 31, 2008 with respect to the conversion of Interstate 80 to a toll facility, as required by Act 44 of 2007. Section 2 of the Report discusses the filing on July 22, 2008 of the amended Phase 1 application with the Federal Highway Administration. Section 10 of the Report discusses the subsequent filing on August 29, 2008 of the addendum to the Phase 1 application.

A copy of the application is attached to the Report as Exhibit A. A copy of the application addendum is attached as Exhibit F.

Thank you for your continuing interest in this initiative.

Sincerely,

Joseph G. Brimmeier
Chief Executive Officer

**Fourth Quarterly Report
To Transportation Committee Co-Chairs**

July 31, 2008



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**Fourth Quarterly Report to Transportation Committee Co-Chairs
July 31, 2008**

In accordance with our ongoing statutory obligation to file quarterly reports and periodic updates regarding the conversion of Interstate 80, we provide the fourth of those quarterly reports.

1. Payments in Fiscal Years 2008 and 2009

The Commission made payments to PennDOT totaling \$750 million for Fiscal Year 2008. In addition, on July 30, 2008, the Commission paid PennDOT \$212.5 million, the first quarterly payment for Fiscal Year 2009. A payment of \$212.5 million is due on the last business day of October 2008, January 2009 and April 2009. All such payments are provided solely from tolls collected on the existing Turnpike system, and debt primarily secured by such tolls.

2. Application to FHWA to Convert Interstate 80 to a Toll Road

On August 17, 2007, the Commission, in cooperation with PennDOT, submitted a Preliminary Expression of Interest to the Federal Highway Administration ("FHWA"), describing the purpose and proposed structure of the conversion of Interstate 80 to a toll road, and subsequently met with FHWA on August 29, 2007. The FHWA responded to the Expression of Interest on September 26, 2007, advising that the Interstate System Reconstruction and Rehabilitation Pilot Program (the "Pilot Program") is the federal tolling initiative that would best meet the goals of the proposal. On October 13, 2007, the formal Phase 1 application was submitted to FHWA to toll Interstate 80 under the Pilot Program. Subsequently, on October 16, 2007 Governor Rendell sent a letter to USDOT Secretary Mary Peters in support of the application.

Only one of the three Pilot Program slots is currently available. However, on January 17, 2008, the Virginia Department of Transportation, which had received Phase 1 approval from FHWA for one of the three Pilot Program slots, announced it had terminated negotiations with Kellogg Brown and Root for improvements along Interstate 81. Such improvements are required under its Pilot Program application to FHWA.

On December 12, 2007, the Commission and PennDOT received a memorandum from the FHWA requesting additional information with respect to the application. Among FHWA's requests are a clearer identification of the rehabilitation, reconstruction and improvement projects currently being planned for Interstate 80 by the Commission after the Conversion Date, further information on the plan of finance for meeting the operating and capital requirements of Interstate 80, and evidence of consultations held with affected metropolitan and rural planning organizations.

Turnpike Chief Executive Officer Brimmeier and PennDOT Secretary Biehler confirmed their intent to respond to FHWA questions and continue seeking Federal approval to toll I-80 by letter dated December 20, 2007.

On July 22, 2008, at the request of Governor Rendell, the Commission and PennDOT submitted an amended Phase 1 application to FHWA which responds to the various issues raised by

FHWA. In addition, the amended application describes in greater detail the robust capital improvement plan that provides for the complete reconstruction and rehabilitation of Interstate 80 over the term of the I-80 Lease and Funding Agreement (the "Lease"). Attached hereto as Exhibit A is the amended Phase 1 application. The amended Phase 1 application was accompanied by a letter of support from Governor Rendell. Attached hereto as Exhibit B is Governor Rendell's letter of support for the FHWA amended Phase 1 application. The transmittal letter from PennDOT Secretary Biehler and Commission Chief Executive Officer Brimmeier that accompanied the amended Phase 1 application notes that the application will be supplemented by mid-August with a report on meetings with the metropolitan and rural planning organizations concerning the proposed toll rates and potential toll collection locations. Attached as Exhibit C is a schedule of the MPO/RPO meetings.

3. Interstate 80 Capital Plan

In mid-July, after an in-depth engineering study which is described in Section 4 below, the Commission announced its extensive plans for the complete rehabilitation and reconstruction of I-80. The first decade capital improvement plan calls for an investment of over \$2.5 billion, four times the current investment in I-80 in real dollar terms.

In the first decade of the I-80 renewal plan:

- The Commission will begin construction in the first three years of the plan of two interchanges linking I-80 and I-99 at an estimated cost of \$179 million.
- A total of 57 of the "original" I-80 and PennDOT overpass bridges will be replaced. The remaining original bridges carrying I-80 will be replaced over the 50-year Lease. Reconstruction of all structurally deficient, weak link, fracture critical, and bridges with less than 15 feet overhead clearance will be under way in the first decade.
- About 80 percent of the 311 miles of I-80 in Pennsylvania will be reconstructed or resurfaced.
- The Commission will invest approximately \$4 million per year (inflated annually) in Intelligent Transportation System upgrades, including motorist warning signs to enhance safety and mobility in the corridor.

Attached as Exhibit D is the I-80 Capital Plan Executive Summary. The amended Phase 1 application also contains an extensive discussion of the I-80 capital plan.

4. Engineering, Traffic and Economic Impact Studies

The Commission and its consulting engineers have undertaken a thorough analysis of the full 311-mile length of Interstate 80 to identify the reconstruction and rehabilitation needs of the highway. More than 50% of the pavement is over 35 years of age, and, as described above, the Commission has developed a program to rebuild I-80 from the ground up over the term of the Lease. Engineers have assessed the number and location of bridges with substandard overhead clearance, structurally deficient bridges, weak link bridges, and fracture critical bridges. From a roadway standpoint, all interchanges have been evaluated to determine which, if any, elements of each interchange are deficient. Traffic and revenue studies have been underway since last autumn, focusing on identifying potential tolling locations and possible diversion issues. The initial phase of work is expected to be completed in early Fall so that discussions on the benefits

and impacts of various tolling scenarios can be discussed and evaluated. The Commission expects to utilize an open road tolling system. The traffic studies will assist the Commission in recommending potential locations for up to ten toll collection areas.

The Commission has assembled a consulting team consisting of GSP Consulting and Wilbur Smith Associates to study the economic conditions along the I-80 corridor and to assess the economic impact of Act 44 on the corridor, including the tolling of I-80. The team will also identify reasonable mitigation strategies to help alleviate certain adverse economic impacts. Preliminary study findings are expected later this year.

5. Turnpike Subordinate Revenue Bond Issue

On July 30, 2008, the Commission issued \$233,905,000 of Turnpike Subordinate Revenue Bonds, Series B of 2008 (the "Bonds") maturing June 1, 2018 through June 1, 2036 under a Subordinate Trust Indenture dated as of April 1, 2008, as amended and supplemented. Of the Bonds, \$164,915,000 are tax-exempt, and \$68,990,000 are taxable.

The proceeds of the Bonds were used to provide funds to (a) make a payment to PennDOT in accordance with Act 44 and pursuant to the Lease to fund certain grants to mass transit agencies and various road, highway, bridge and capital projects of PennDOT, (b) fund a deposit to a Debt Service Reserve Fund, and (c) pay the costs of issuance of the Bonds.

The Bonds, along with prior and additional Subordinate Indenture Bonds of the same class, and certain other Parity Obligations, are equally and ratably secured primarily by Commission Payments from amounts released from the General Reserve Fund under the Commission's Senior Indenture after payment of all Senior Indenture Obligations thereunder. Capitalized terms used in this section and not defined herein have the meaning set forth in the Official Statement dated July 25, 2008, the cover page of which is attached hereto as Exhibit E.

6. Governor's Request for Qualifications to Lease the Turnpike

In early September 2007, Governor Rendell and PennDOT announced a Request for Qualifications from firms interested in leasing the Mainline of the Pennsylvania Turnpike and the Northeast Extension. Responses were received from 14 firms. Such a proposed lease of the Turnpike would require a change in law, and may involve the repeal of all or part of Act 44.

On April 16, 2008, Governor Rendell's office released a document entitled "Proposed Lease of the Pennsylvania Turnpike – Terms and Conditions" (the "Lease Proposal"). The Lease Proposal provides a brief overview of certain of the proposed terms of a 75-year concession lease of the Mainline and the Northeast Extension sections of the Turnpike, and a description of the process for receipt of bids. Binding bids were stated to be due on or about the end of April and were to remain valid pending legislative approval until June 10 or such later date as mutually agreed to by the Commonwealth and the winning bidder. The Lease Proposal provided that legislation authorizing bid acceptance and a final concession agreement would be presented to the legislature with the announcement of the winning bid. On April 30, 2008, the Governor's office announced that the deadline for the receipt of bids had been postponed.

On May 19, 2008, Governor Rendell announced that three bids had been submitted, and that the winning bidder was a partnership of Abertis Infraestructuras, Citi Infrastructure Investors and Criteria CaixaCorp, with a gross bid of \$12.8 billion. Originally, the bid was due to expire June 20, 2008. The bid has been extended twice by the winning bidders, first to July 20, 2008, and more recently to September 30, 2008. In addition, at the time of the announcement of the winning bidder, the form of concession agreement was made public.

Not all of the proceeds of the gross bid would be available to fund transportation projects in Pennsylvania. In order to lease the Turnpike to a private concessionaire, it would be necessary to set aside funds to repay all of the Commission's outstanding toll-backed bonds plus unwind related interest rate swaps (approximately \$3.1 billion as of July 31, 2008). In addition, the terms of the bid called for a reduction of 1/10 of one percent for each 1/100 of one percent that the 30-year LIBOR swap rate on the day that is two business days prior to the closing date of the lease transaction exceeds a benchmark index as of May 9, 2008. The Appropriations Committee staff of the State House of Representatives in its Fiscal Note HB 2158 PN 3829 Amendment #A07641 dated June 18, 2008, calculated the reduction in the bid for this LIBOR index factor as of that date to be \$465 million. They also calculated other necessary modifications including the funding of State Police, capital projects and foregone sales taxes. Certain of these reductions could be offset by freed-up Commission cash on hand. The staff determined that the effective value of the bid with these adjustments was approximately \$8.58 billion as of June 27, 2008.

On June 5, 2008, State Representatives Dwight Evans and Steven Cappelli introduced House Bill 2593 authorizing the leasing of the Turnpike to a private entity and repealing portions of Act 44. House Bill 2593 was referred to the House Transportation Committee on June 5, 2008. The House of Representatives took no action on House Bill 2593 before recessing for the summer. See "8. Pennsylvania House of Representatives Transportation Committee Hearings" herein for additional information.

At this point, it is uncertain whether the bid will prove acceptable to the General Assembly, which must approve any transaction.

7. Pertinent State Legislation

Subsequent to Act 44 being signed into law on July 18, 2007, there have been various amendments proposed by members of the General Assembly that would amend or repeal Act 44, or put new restrictions on the operations of the Commission. At this time, none have been reported out of committee for a vote.

On June 18, 2008, an amendment to a House bill was offered authorizing approval of the Governor's Turnpike lease plan with Abertis and Citi. The amendment was defeated by a vote of 185-12.

On June 26, 2008, Senate Bill 1158, which authorizes private-public partnerships but specifically prohibits the leasing of the Turnpike without a grant of specific authority by the General Assembly, was approved by the Senate by a vote of 49-0. It has been introduced in the House of Representatives and is under consideration in the House Transportation Committee.

8. Pennsylvania House of Representatives Transportation Committee Hearings

On June 26 and 27, 2008, the Pennsylvania House of Representatives Transportation Committee held hearings on HB 2593. Commission Vice-Chair Timothy J. Carson, David Seltzer of Mercator Advisors, and Barry J. Schoch of McCormick Taylor, Inc. testified on behalf of the Commission at the request of the Committee. Messrs. Carson and Seltzer discussed financial and policy concerns with respect to the Governor's proposal to lease the Turnpike. Mr. Schoch gave an update on the I-80 conversion project. Members of the Abertis team, the Commonwealth Foundation, and Pennsylvania State University's Finance Department also testified.

9. Report to Secretary of the Budget

As required by Act 44 and the Lease, on May 30, 2008, the Commission provided to the Secretary of the Budget a financial plan for Fiscal Year 2009 meeting the requirements set forth in Act 44.

10. FHWA Application Addendum

On August 29, 2008, the Commission and PennDOT filed the Addendum to the I-80 Tolling Application with FHWA. The Addendum summarizes the results of the consultations with nine metropolitan and rural planning organizations concerning the proposed toll rates and potential toll collection locations on I-80. It also includes a technical memorandum prepared by Wilbur Smith Associates that contains a preliminary I-80 toll system, rates and diversion analysis. Attached as Exhibit F is the Addendum.

Exhibit A
Amended Phase 1 Application