



Financial Backgrounder

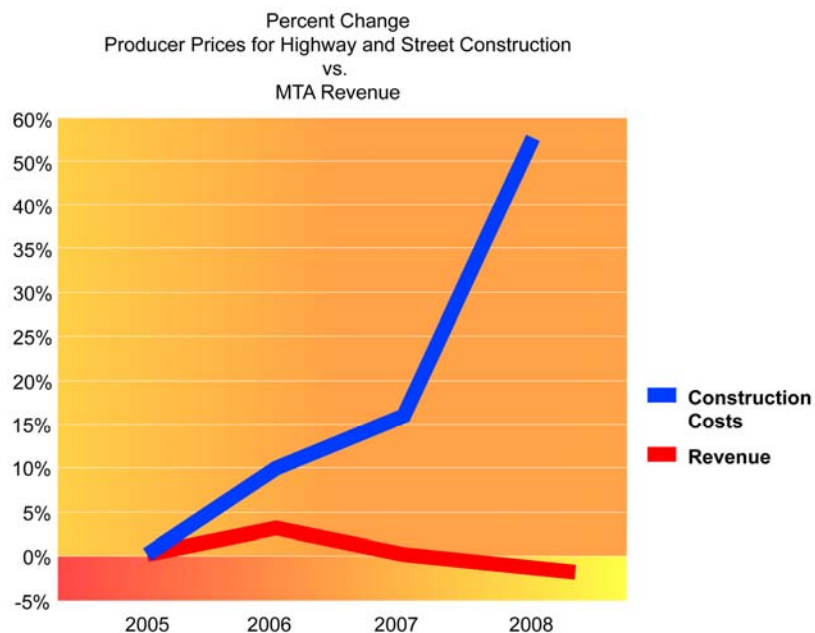
Background

The Maine Turnpike Authority was created by the Maine Legislature in 1941 to construct and ensure the proper maintenance of the highway that serves as the State's economic lifeline.

The original 45 miles of the Maine Turnpike from Kittery to Portland were completed in 1947. The 64 miles from Portland to Augusta were completed in 1955. Over the past 61 years the Maine Turnpike Authority has been diligent in its care of the highway. The agency has followed a responsible program of paving and bridge rehabilitation designed to maintain a safe and efficient highway and prevent expensive repairs that result from neglect. Over the past five years the Authority has rehabilitated pavement on 148 of the Turnpike's 632 lane miles. This pace of rehabilitation must be increased over the next decade to prevent unacceptable levels of deterioration on sections of the highway that lead to unnecessarily expensive repairs.

There are 176 bridges that carry or cross over the Maine Turnpike. Nearly all of them were built in the nine year period between 1946 and 1955. The expected structural lifespan of these bridges is between 50 – 70 years, varying according to the traffic volumes and wear and tear on each structure. This means that nearly all of the bridges have or will come due for major rehabilitation or replacement between 1995 -- 2025.

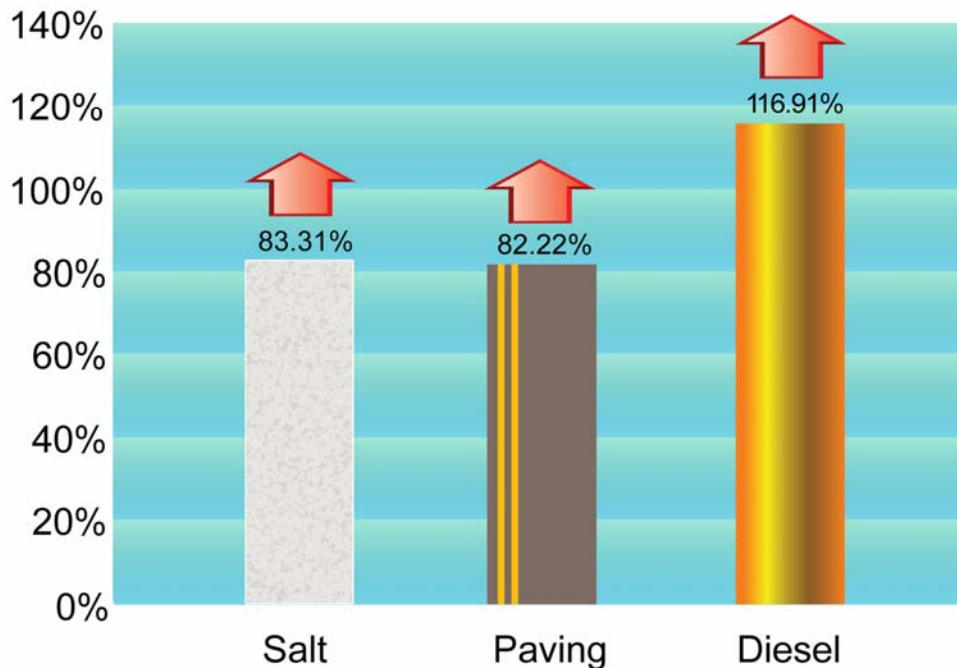
In 1995, the Turnpike Authority launched an aggressive bridge rehabilitation program, which has resulted in the major repair or replacement of over 80 bridges. That leaves 96 bridge projects to be completed by 2025 or an average of 6 bridges a year. Again, failure to maintain this approximate schedule will only cause the bridges to deteriorate further and the cost to rehabilitate them to increase exponentially.



Unprecedented Times

- Traffic volumes on the Maine Turnpike from January to November 2008 have declined, causing toll revenues to fall by 3% compared to the same period last year.
- For the first time in the Maine Turnpike's 61-year history, toll revenues for 2008 are expected to be lower than the previous year.
- The impact of declining toll revenue has been made even more severe by the skyrocketing increases in construction and energy costs. The overall cost of construction has increased by 55.3% since 2005.

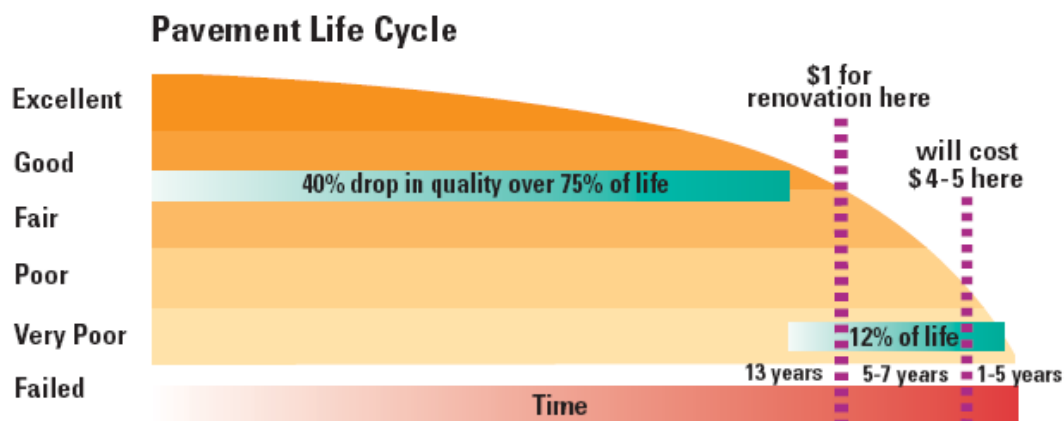
Percent Increase 2005-2008 MTA Revenue
vs.
Key Maintenance Products



- Some items have increased at a staggering rate. For example, in 2005 diesel fuel was \$1.65 per gallon. Today, it is \$3.60 per gallon—an increase of 117%.
- In 2005 the cost of highway paving mix for a major paving project on the Turnpike was \$56.8 per ton. Today, the cost is \$103.50 per ton—an increase of 82%.
- In 2005, the cost of highway salt was \$40.99 per ton. Today, it is \$75.14 per ton—an increase of 83%.

Protecting the Investment

Postponing pavement maintenance and allowing the highway to further deteriorate significantly increases the eventual cost of repair. Studies show that if a highway surface is allowed to exceed 75% of its lifespan, the cost of rehabilitation will increase four to five times.



Sooner is better when it comes to pavement rehabilitation, saving up to 75% in maintenance costs.

Rehabilitating Aging Bridges

In 1995, the Maine Turnpike Authority launched an aggressive bridge rehabilitation program, resulting in construction on 80 of the highway's 176 bridges. Still the number of bridges requiring repair is increasing every year. Meanwhile, the cost of construction has increased by 55% since 2005.

The chart below indicates that the total number of bridges requiring some level of repair is increasing each year, and the number of Category II Bridges (bridges which should be repaired as soon as possible) is increasing each year.

Year	Number of Category IV Bridges	Number of Category III Bridges	Number of Category II Bridges	Number of Category I Bridges	Total
2004	42	52	21	0	115
2005	58	53	19	1	131
2006	56	46	28	0	130
2007	59	48	33	0	140

Category IV --- needs minor repair

Category III --- needs repair, but structurally safe

Category II --- needs repair as soon as possible, long delay will create safety concern

Category I --- needs immediate repair. Any delay could jeopardize safety

Preserving Capital Improvements by Cutting Operating Expenses

In order to reduce the impact of declining revenue and rising cost on the Maine Turnpike's capital improvement program, the Authority has made significant reductions in the Turnpike's legislatively approved operating budgets.

Through efficiencies, budget cuts, and staff reductions, the Maine Turnpike Authority has achieved Operating Budget savings of \$1.6 million in 2007 and \$3.2 million in 2008. Nearly \$4 million in savings have been identified in the 2009 Operating Budget.

Legal Obligations and Realities

The Maine Turnpike Authority was specifically designed by the Maine Legislature to operate as an independent agency of government with the authority to raise revenue, issue bonds and to maintain its own debt, separate from the state's debt. It was designed to ensure that the highway would be at all times properly maintained and protected from short-term political influences that may detract from the responsible upkeep of the facility.

By law, the Maine Turnpike Authority must contract with an independent, highly qualified general consulting engineering firm. It is the role of the GEC, as a third-party, to ensure that the highway is properly maintained and operated, thus protecting the safety of Turnpike users and the investment of Turnpike bond holders.

The GEC is required to conduct a comprehensive annual inspection of the Turnpike's infrastructure and operations. Based on that inspection, the GEC makes recommendations to the Turnpike Authority for the proper maintenance of the highway. The Authority is required to properly fund and carryout the recommendations of the GEC. Failure to do so, would violate the Authority's Bond Resolution, cause the Authority's outstanding credit ratings to be downgraded and ultimately initiate a process, provided for in the Bond Resolution, that would force the Authority to raise the necessary funds in order to carryout the recommendations of the GEC.

Wall Street Impacts

As a financing agency, the Maine Turnpike Authority has also felt the negative impacts of the recent upheaval on Wall Street. As the Authority collects revenue, it is required by its Bond Resolution to allocate that revenue to a series of accounts that are arranged in a priority order to ensure its financial obligations are met and the road and its bridges are properly maintained. The first priority is the debt service account. The second priority is the debt service reserve account, which in effect serves as an insurance policy for the payment of Maine Turnpike debt. To make more cash available for capital improvement projects, such as the Widening Project, the Authority has appropriately funded the debt service account with AAA-rated surety bonds. The Bond Resolution does not allow bonds with a lower rating to be used for this purpose. Unfortunately, recent events on Wall Street have caused those AAA-rated surety bonds to be downgraded, making them unqualified to fund the debt service reserve account. To avoid a serious breach of the Bond Resolution, the Authority must replace the surety bonds with an infusion of \$12 million by November 2009.

Action Required

The Maine Turnpike Authority's 20-year plan calls for a toll increase in February of 2010. Given the circumstances described above, the Authority Board of Directors is considering the advancement of the 2010 toll increase by one year to raise an estimated \$20 million. If action is not taken to advance the scheduled toll increase, it is certain that the combination of declining revenues, skyrocketing construction costs, and unstable financial markets will require the Maine Turnpike to cancel its capital improvement and reserve maintenance program. This would result in the loss of an entire year of paving, bridge rehabilitation and highway maintenance operations that are critical to the safety and efficiency of the Turnpike. Such a curtailment of the capital improvement and reserve maintenance program would violate the Authority's bond resolution, which requires proper and timely maintenance of the facility, and would almost certainly negatively impact the Authority's credit rating and significantly damage the Authority's standing in the financial community.

How Does the Maine Turnpike Compare?

- The Maine Turnpike Authority is among an elite group of six toll agencies in the nation to earn AA+ credit ratings from two of the three rating agencies, assuring the most favorable borrowing rates.
- The Maine Turnpike's per mile toll rate is the 5th lowest of the 64 toll facilities operating in the United States. Even after the proposed toll increase the Maine Turnpike's toll rate would remain among the lowest of U.S. toll agencies, many of which are faced with similar toll increase requirements.
- According to the data compiled by the Federal Highway Administration, Maine Turnpike Authority spends the lowest percentage of its budget on administration than any toll highway operating in the Northeastern United States.
- Federal Highway Administration data also indicates that the Maine Turnpike directs the highest percentage of its overall budget to capital improvements than any toll highway in the Northeastern United States.

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