

NEW JERSEY TURNPIKE AUTHORITY

Financial Management Principles and Guidelines

January 2017

I. INTRODUCTION

A. Purpose of Financial Management Principles and Guidelines

These Financial Management Principles and Guidelines are intended to serve as a management tool to enable the New Jersey Turnpike Authority (the “Authority”) to communicate the Authority’s commitment to a sound financial decision making process and affirm to investors and the credit rating agencies management’s commitment to the long term financial viability of the Authority and repayment of its bonds. These Financial Management Principles and Guidelines are also intended to serve as guidance for management of the Authority with respect to:

- i. the issuance and management of Authority debt in appropriate amounts and types with the goals of achieving the lowest possible costs of capital within prudent risk parameters and ensuring ongoing access to the capital markets; and
- ii. compliance by the Authority with all provisions of the Act (as hereinafter defined) relating to bonds, notes or other obligations of the Authority, as well as all provisions of the Authority’s Bond Resolution (as hereinafter defined).

These Financial Management Principles and Guidelines will be reviewed by the Authority no less than once every two (2) years and any changes to these Financial Management Principles and Guidelines will be presented to and approved by the Authority’s Board of Commissioners. These Financial Management Principles and Guidelines will also be made available on the Authority’s website (<http://www.state.nj.us/turnpike>).

B. Best Interests of the Authority

While adherence to these Financial Management Principles and Guidelines is desirable, deviations from these Financial Management Principles and Guidelines may be appropriate from time to time to address: (i) changing financial goals; (ii) emerging financial products/debt structures; and (iii) unique market opportunities. As a result, the general best interests of the Authority shall supersede any provision of these Financial Management Principles and Guidelines.

C. The Authority

The Authority is a public body corporate and politic of the State of New Jersey created under and by virtue of the New Jersey Turnpike Authority Act of 1948, constituting Chapter 454 of the Laws of New Jersey of 1948, as amended and supplemented (the “Act”). Pursuant to the Act, the Authority is authorized and empowered to issue and incur its bonds, notes and other obligations for the purposes and on the terms and conditions set forth in the Act. All currently issued and outstanding bonds of the Authority, and all future bonds, notes or other obligations of the Authority, have been or will be issued and incurred under and pursuant to, and/or in accordance with, the terms and provisions of the Act and a resolution of the Authority adopted on August 20, 1991 and entitled, “Turnpike Revenue Bond Resolution”, as amended and restated on September 26, 1991, and as further amended and restated on

November 22, 1991, as the same has been and will be further amended, restated and supplemented from time to time (the "Bond Resolution"). Capitalized terms used herein which are not otherwise defined shall have the meaning given to such terms in the Bond Resolution.

II. FINANCIAL MANAGEMENT PRINCIPLES AND GUIDELINES

- A. Management will conduct Authority business in a manner that is in compliance with the requirements of the Act and the Bond Resolution, as well as all other applicable federal and state laws, rules and regulations.
- B. Revenues and bond proceeds will be used to improve and/or maintain safe and efficient roadways.
- C. The Authority will employ a Traffic Engineer to develop conservative toll revenue growth projections and establish toll rate schedules.
- D. The Authority will manage operating expenses within its available annual authorized operating budget, with a goal of reducing operating expenses while maintaining the quality of its roads and services.
- E. The Authority will adequately fund its Maintenance Reserve Fund, Special Project Reserve Fund, and other capital budgets in compliance with the provisions of the Bond Resolution and the recommendations of its Consulting Engineer.
- F. The Authority will manage its cash flow and total expenditure levels such that it maintains average unrestricted cash balances in the General Reserve Fund equal to at least:
 - (1) one hundred and twenty-five million dollars (\$125,000,000) as of December 31, 2017;
 - (2) one hundred and fifty million dollars (\$150,000,000) as of December 31, 2018;
 - (3) one hundred and seventy five million dollars (\$175,000,000) as of December 31, 2019;
and
 - (4) ten (10) percent of total annual revenue as of December 31, 2020 and each December 31st thereafter, based on that year's budgeted total annual revenue.
- G. The Authority will continue to fund its approved Capital Improvement Program with the lowest possible cost of capital. The Capital Improvement Program will be reviewed on an annual basis. Management will establish a Capital Improvement Program Reserve within the Capital Improvement Program budget to protect against risk.
- H. The Authority will prepare, at a minimum, a 5-year financial plan and update this plan on a regular basis as assumptions change.
- I. The Authority shall invest all of its funds (including the proceeds received from the sale of its bonds, notes or other obligations) which are not immediately needed for the purposes of the Authority in Investment Securities as provided in the Bond Resolution. The Authority shall

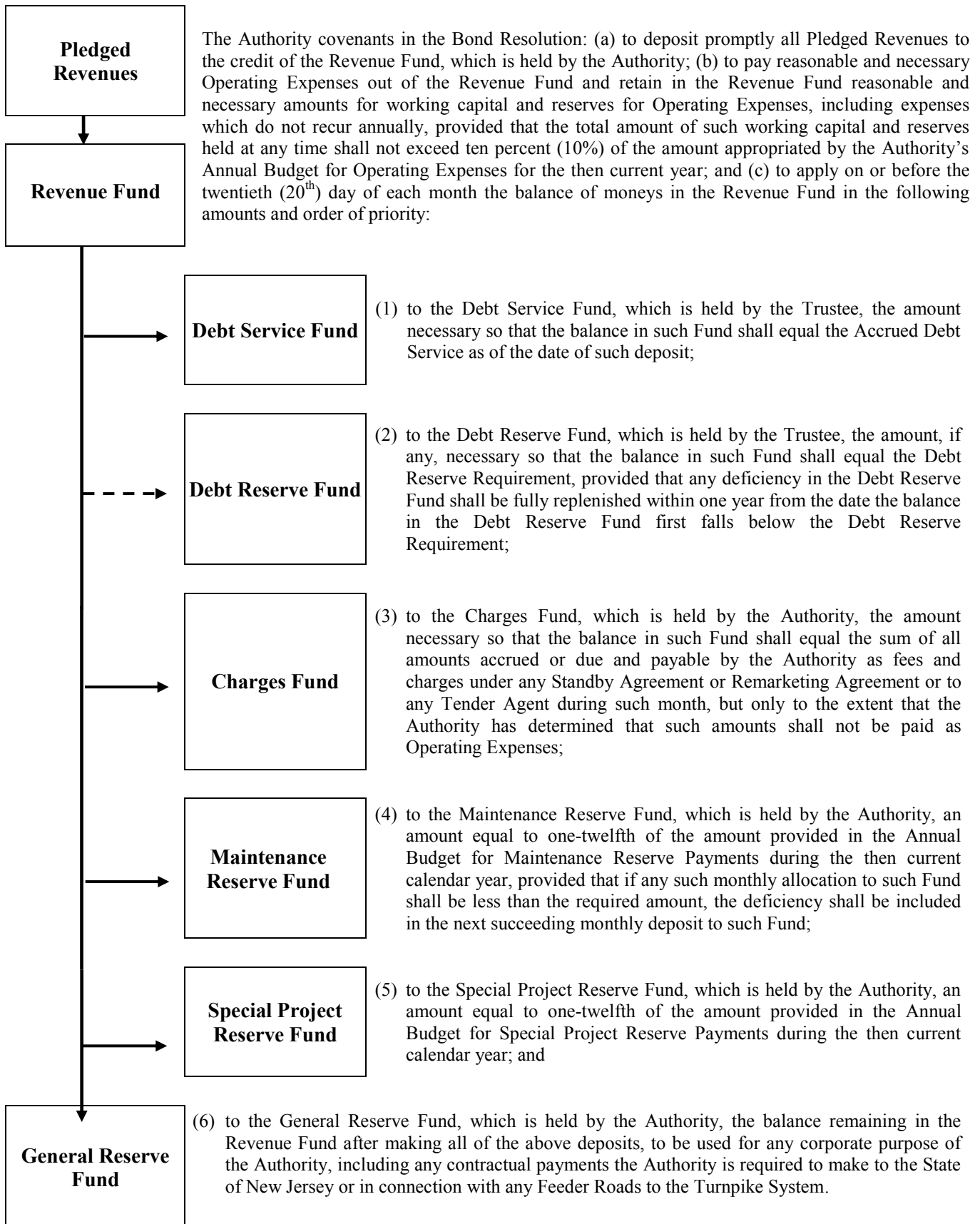
invest all of its funds in a manner that allows such funds to be available when needed to be applied for their intended purposes. Funds will be invested in a manner consistent with the Investment Plan to be hereafter adopted by the Authority in accordance with Paragraph S below, with the goals of safety, liquidity and then yield in that order of priority.

- J. The Authority will prepare its books, records, and accounts according to General Accepted Accounting Principles applicable to governmental entities in the United States of America and cause such books, records and accounts to be annually audited by a nationally recognized firm of Certified Public Accountants. The Authority shall record all transactions consistent with the provisions of the Bond Resolution, including the provisions relating to all Funds and Accounts established under the Bond Resolution.
- K. The Authority will maintain current and meaningful financial and other information on its website for the benefit of investors, credit enhancement providers, and credit rating agencies.
- L. The Authority shall strive to maintain or improve the credit ratings for its debt without adversely affecting the levels or types of debt that may be issued by the Authority to finance its essential capital activities. The Authority will strive to communicate regularly with the rating agencies. To the extent possible and/or necessary, the Authority will forward periodic financial and other information to the rating agencies, update the rating agencies upon the occurrence of any significant financial developments and communicate with the rating agencies prior to each Authority debt issuance.
- M. The Authority will manage its toll rates, expense budget, and debt issuance program to achieve a minimum senior debt service coverage of 1.4x, and a total requirements coverage of 1.2x, although compliance with the Net Revenue Requirement under the Bond Resolution only requires the Authority to generate Net Revenues in each calendar year in an amount equal to the greater of (i) the sum of Aggregate Debt Service, required payments into the Maintenance Reserve Fund, required payments into the Special Project Reserve Fund and the payments, if any, into the Charges Fund for such year, or (ii) 1.2x the Aggregate Debt Service for such year. Furthermore, although the Bond Resolution permits the Authority to include amounts which are withdrawn from the Construction Fund, the Special Project Reserve Fund, and the General Reserve Fund and deposited into the Revenue Fund as part of the Pledged Revenues for purposes calculating compliance with the Net Revenue Requirement, the Authority shall not, in any calendar year, set its toll rates and/or adopt an annual budget which in any manner expressly relies, in whole or in part, upon any such withdrawals and deposits into the Revenue Fund as a means for achieving compliance with the Net Revenue Requirement or any other higher debt service or other coverage level which the Authority has established as its goal.
- N. Bonds, notes, and other obligations will be issued by the Authority solely for the purposes of financing its essential capital activities or refunding outstanding debt. Debt will not be issued by the Authority to fund, in whole or in part, operation and maintenance costs of the Turnpike System or capital assets with remaining useful lives shorter than the final maturity date of the associated debt. All bonds, notes and other obligations issued by the Authority will comply with the requirements of the Act and the Bond Resolution, as well as all other applicable federal and state laws, rules and regulations.

- O. The Authority will structure its new money debt maturities to achieve either an overall level debt service structure or a standalone level debt service structure. The Authority will continue to issue its bonds with maturities up to thirty (30) years from date of issuance to finance essential capital activities for the Turnpike System, including the acquisition, construction and rehabilitation of major capital assets for and/or additions to the New Jersey Turnpike, the Garden State Parkway and any other component of the Turnpike System.
- P. During the financing of the Authority's currently approved Capital Investment Program, the Authority does not intend to increase its overall variable rate debt in an amount greater than 20% of its overall debt.
- Q. During the financing of the currently approved Capital Investment Program, the Authority does not intend to increase the overall aggregate notional amount of its currently outstanding interest rate swap agreements and will look to reduce its outstanding interest rate swaps as economic opportunities to do so arise. Over the long-term, the Authority will not enter into interest rate swaps in an aggregate notional amount greater than 20% of its overall debt outstanding. If additional swaps are entered into, the Authority will have a goal to achieve a diversified (no more than 25% with any single counterparty) and highly rated (A1/A+ or better) group of counterparties. The Authority will require appropriate collateral provisions from such counterparties if their ratings decline below A2/A. The Authority will not provide collateral or termination rights to the counterparty unless the Authority's ratings decline below Baa2/BBB or lower. Any additional interest rate swap agreements will be entered into by the Authority in a manner consistent with the Interest Rate Swap Management Plan to be hereafter adopted by the Authority in accordance with Paragraph S below.
- R. When identifying potential refunding candidates for economic refundings, the Authority will generally seek a minimum per transaction present value savings threshold of 3%. Notwithstanding the above, the 3% savings threshold shall not apply for debt with a call date between one (1) and three (3) years from their stated maturity, or for small principal maturities and bonds that produce significant negative arbitrage. In certain instances, it may be advantageous for the Authority to issue refunding debt that does not produce positive economic savings but serves to restructure existing debt or retire debt in order to remove undesirable debt covenants. Prior to issuing non-economic refunding debt, the Authority will evaluate the benefits (both intangible and tangible) of issuing such debt as well as the economic cost of such debt.
- S. The Authority will hereafter adopt a formal Debt Management Plan, an Interest Rate Swap Management Plan and an Investment Plan, all of which shall be consistent with the provisions of the Act, the Bond Resolution and these Financial Management Principles and Guidelines.

III. BOND RESOLUTION FLOW OF FUNDS:

The Bond Resolution creates and establishes various Funds and provides that the Pledged Revenues shall be deposited into such Funds in the amounts and in the order of priority set forth in the Bond Resolution. The Authority will at all times comply with the provisions of the Bond Resolution in connection with the deposit and application of the Pledged Revenues. The following chart illustrates and generally describes the provisions of the Bond Resolution governing the deposit and application of the Pledged Revenues to the various Funds created and established under the Bond Resolution:



IV. STATUTORY PROVISIONS AND CONSIDERATIONS

A. General

Bonds, notes or other obligations issued by the Authority are revenue obligations of the Authority and are not a debt or liability of the State of New Jersey or any political subdivision thereof (other than the Authority). Neither the faith and credit nor the taxing power of the State of New Jersey or of any political subdivision thereof is pledged to the payment of the Authority's bonds, notes or other obligations. The Authority has no taxing power.

B. Approvals of Governor and State Treasurer

Pursuant to Section 3(F) of the Act (N.J.S.A. 27:23-3(F)), no resolution or other action of the Authority providing for the issuance of bonds, refunding bonds or other obligations or the fixing, revising or adjusting of tolls for the use of the Turnpike System shall be adopted or otherwise made effective by the Authority without the prior written approval of the Governor and the State Treasurer. Section 3(F) of the Act further provides that the powers conferred upon the Governor and the State Treasurer pursuant to such Section shall be exercised with due regard of the rights of the holders of the Authority's bonds at any time outstanding and nothing in such Section shall in any limit, restrict or alter the obligation or powers of the Authority to carry out and perform each and every covenant, agreement or contract at any time made or enter into by or on behalf of the Authority with respect to its bonds or for the benefit, protection and security of the holders thereof.

C. State Non-Impairment Agreement

Pursuant to Section 7 of the Act (N.J.S.A. 27:23-7), the State of New Jersey has pledged and agreed with the holders of the Authority's bonds that it will not limit or restrict the rights vested in the Authority to acquire, maintain, construct, improve, manage, repair, reconstruct and operate the Turnpike System, or to establish and collect such charges and tolls as may be convenient or necessary to produce sufficient revenue to meet the expenses of maintenance and operation thereof and to fulfill the terms of any agreements made with the holders of the Authority's bonds or in any way impair the rights and remedies of the holders of such bonds until the bonds, together with interest thereon, are fully paid and discharged.