NEW ISSUE – BOOK-ENTRY ONLY

Ratings:	Moody's:	Aa2
	Standard & Poor's:	AA
	Fitch:	AA

In the opinion of Bond Counsel, interest on the First Series A Bonds (a) is excluded from gross income for federal income tax purposes, (b) is not an item of tax preference, within the meaning of Section 57 of the Internal Revenue Code (the "Code"), for purposes of the alternative minimum tax imposed by Section 55 of the Code on individuals and corporations, and (c) is not included in adjusted current earnings under Section 56(g) of the Code when calculating corporate alternative minimum taxable income. The opinions set forth in the preceding sentence are subject to the condition that the Commonwealth comply with all the requirements of the Code that must be satisfied subsequent to the issuance of the First Series A Bonds in order that interest on the First Series A Bonds be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the First Series A Bonds to be included in gross income retroactively to the date of issuance of the First Series A Bonds. The Commonwealth has covenanted to comply with all such requirements. Income of the First Series B Bonds is includible in gross income for purposes of federal income taxation. Under the laws of the Commonwealth of Pennsylvania, the Bonds are exempt from personal property taxes in Pennsylvania, and interest on the Bonds is exempt from Pennsylvania personal income tax and the Pennsylvania corporate net income tax. For a more complete description, see "TAX MATTERS" herein.

$900,000,000
Commonwealth of Pennsylvania
General Obligation Bonds
First Series of 2010
consisting of

$295,865,000	$604,135,000
First Series A of 2010 (Tax Exempt)	**First Series B of 2010 (Federally Taxable – Build America Bonds)**

Dated: Date of Issuance and Delivery **Due: February 15, as shown on the inside cover**

The First Series A Bonds and the First Series B Bonds are collectively referred to herein as the "Bonds." The Bonds will be issued only in book-entry form initially registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Interest on the Bonds will be payable semi-annually on August 15 and February 15, commencing August 15, 2010. Wells Fargo Bank, National Association, Pittsburgh, Pennsylvania, is the Loan and Transfer Agent for the Bonds. Principal of and interest and redemption premium, if any, on the Bonds are payable to Cede & Co. See "THE BONDS – Book-Entry Only System."

The First Series A Bonds are not subject to redemption prior to maturity. The First Series B Bonds are subject to redemption as set forth herein. See "THE BONDS – Optional Redemption," "THE BONDS – Mandatory Sinking Fund Redemption," and "THE BONDS – Extraordinary Optional Redemption-First Series B Bonds" herein.

The Bonds are direct and general obligations of the Commonwealth and the full faith and credit of the Commonwealth are pledged for the payment of principal of and interest on the Bonds.

This cover page contains certain information for quick reference only. It is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision regarding the Bonds.

The Bonds are offered when, as and if issued, and are subject to the receipt of the legal opinions of the Attorney General of the Commonwealth of Pennsylvania and of Obermayer Rebmann Maxwell & Hippel LLP of Philadelphia, Pennsylvania, Bond Counsel. The Commonwealth expects that the Bonds will be available in definitive form for delivery in New York, New York, on or about January 21, 2010.

Dated: January 13, 2010

$900,000,000
Commonwealth of Pennsylvania
General Obligation Bonds
First Series of 2010

consisting of

$295,865,000 First Series A of 2010
(Tax-Exempt)

MATURITY SCHEDULE

(Base CUSIP Number: 70914P)

Due February 15	First Series A of 2010 Principal Amount	Interest Rate	Yield	CUSIP Number
2011	$24,045,000	2.000%	0.300%	LP5
2012	28,465,000	5.000	0.720	LQ3
2013	29,890,000	5.000	0.980	LR1
2014	31,385,000	5.000	1.320	LS9
2015	32,950,000	5.000	1.760	LT7
2016	34,600,000	5.000	2.240	LU4
2017	36,330,000	5.000	2.540	LV2
2018	38,145,000	5.000	2.800	LW0
2019	40,055,000	5.000	3.020	LX8

$604,135,000 First Series B of 2010
(Federally Taxable – Build America Bonds)

MATURITY SCHEDULE

(Base CUSIP Number: 70914P)

Due February 15	First Series B of 2010 Principal Amount	Interest Rate	Yield	CUSIP Number
2020	$42,055,000	4.450%	4.430%	LY6
2021	44,050,000	4.550	4.530	LZ3

$256,025,000[1] 4.65% Term Bond due February 15, 2026
at 100.221 to yield 4.63% (CUSIP: 70914P ME9)

$262,005,000[1] 5.45% Term Bond due February 15, 2030
at 100.116 to yield 5.44% (CUSIP: 70914P MJ8)

[1] Term bonds maturing in these years are subject to Mandatory Sinking Fund Redemption by the Commonwealth. See "THE BONDS – Mandatory Sinking Fund Redemption."

THE ISSUING OFFICIALS

Governor .... *EDWARD G. RENDELL*
State Treasurer .... *ROBERT M. McCORD*
Auditor General .... *JACK WAGNER*

OFFICE OF THE BUDGET

Secretary .... *MARY A. SODERBERG*

Attorney General of the Commonwealth of Pennsylvania:

Tom Corbett

Bond Counsel:

Obermayer Rebmann Maxwell & Hippel LLP
Philadelphia, Pennsylvania

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations, other than as contained in this Official Statement, in connection with the offering contained herein, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Commonwealth of Pennsylvania. This Official Statement does not constitute an offer to sell, or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction where such sale would be unlawful.

Except as otherwise noted, the information herein is as of the date of this Official Statement and is subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, in any circumstances, create any implication that there has been no change in the affairs of the Commonwealth of Pennsylvania since the date hereof.

The order and placement of the information this Official Statement, including the Appendices hereto and the information incorporated herein by reference, are not to be deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the Appendices, and the information incorporated herein by reference, must be considered in its entirety.

TABLE OF CONTENTS

SUMMARY INFORMATION

THIS SUMMARY STATEMENT IS SUBJECT IN ALL RESPECTS TO THE MORE COMPLETE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT. OFFERING OF THE BONDS TO THE POTENTIAL PURCHASERS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT, INCLUDING THE COVER AND APPENDICES HERETO AND THE INFORMATION INCORPORATED BY REFERENCE.

Issuer....................................... Commonwealth of Pennsylvania

Offering.................................. $900,000,000 Commonwealth of Pennsylvania, General Obligation Bonds, consisting of $295,865,000 First Series A of 2010 (the “First Series A Bonds”) and $604,135,000 First Series B of 2010 (the “First Series B Bonds” and collectively with the First Series A Bonds, the “Bonds”).

Dated Date .... Date of Issuance and Delivery

Security .... General obligations of the Commonwealth of Pennsylvania; full faith and credit pledged

Use of Proceeds....................... The Commonwealth of Pennsylvania is issuing the Bonds for the following purpose:

Purpose	**Principal Amount**
Capital Facilities Projects	$850,000,000
Growing Greener Projects	$50,000,000

Redemption............................. The First Series A Bonds are not subject to redemption prior to maturity. The First Series B Bonds are subject to optional redemption, extraordinary option redemption and mandatory sinking fund redemption as set forth herein. See “THE BONDS – Optional Redemption, - Extraordinary Optional Redemption, and - Mandatory Redemption”.

Authorized Denominations.... $5,000 or integral multiples thereof.

Form of Bonds........................ Bonds are issued in fully registered form through a book-entry only system.

Loan & Transfer Agent......... Wells Fargo Bank, National Association, Pittsburgh, Pennsylvania.

Legal Opinions .... Obermayer Rebmann Maxwell & Hippel LLP, Bond Counsel.
Tom Corbett, Attorney General of the Commonwealth of Pennsylvania.

Bond Ratings .... Moody’s Investors Service Aa2
Standard & Poor’s Rating Services, a division
of the McGraw-Hill Companies....................AA
Fitch Ratings...AA

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Official Statement

$900,000,000
Commonwealth of Pennsylvania
General Obligation Bonds

$295,865,000 First Series A of 2010
$604,135,000 First Series B of 2010

INTRODUCTION

This Official Statement of the Commonwealth of Pennsylvania (the "Commonwealth"), including the cover page and appendices, presents certain information in connection with the issuance of $900,000,000 aggregate principal amount of the Commonwealth's general obligation bonds consisting of $295,865,000 aggregate principal amount of (Tax-Exempt) Commonwealth of Pennsylvania General Obligation Bonds, First Series A of 2010 (the "First Series A Bonds"), and $604,135,000 aggregate principal amount of (Federally Taxable – Build America Bonds) Commonwealth of Pennsylvania General Obligation Bonds, First Series B of 2010 (the "First Series B Bonds" and collectively with the First Series A Bonds, the "Bonds").

The Bonds are general obligations of the Commonwealth to which the full faith and credit of the Commonwealth are pledged. See "SECURITY AND SOURCE OF PAYMENT FOR BONDS." Principal of and interest payments on the Bonds will be paid from the General Fund. See "COMMONWEALTH FINANCIAL PERFORMANCE" and "COMMONWEALTH FINANCIAL STRUCTURE AND PROCEDURES."

When issued, the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, securities depository for the Bonds under a book-entry only registration system. See "THE BONDS — Book-Entry Only System" and Appendix D.

The Bonds are authorized investments for fiduciaries and personal representatives, as defined in the Probate, Estates and Fiduciaries Code within the Commonwealth; are legal investments for Pennsylvania banks, trust companies, bank and trust companies, savings banks, and insurance companies; and are acceptable as security for deposits of the funds of the Commonwealth. See "LEGALITY FOR INVESTMENT."

Except where otherwise expressly noted, the financial and other information provided in this Official Statement is generally derived from the records of the Commonwealth. All financial information should be considered as unaudited unless otherwise specifically identified. All estimates and assumptions are based on the best information available to the Commonwealth but do not constitute factual information. All estimates of future performance or events constituting "forward- looking statements" may or may not be realized because of a wide variety of economic and other circumstances. Included in such forward-looking statements are numbers and other information from budgets for current and future fiscal years. The references to, and summaries of, constitutional and statutory provisions of the Commonwealth and to bond resolutions and other documents are qualified in their entirety by reference to the complete provisions of such documents and to any judicial interpretations thereof.

THE BONDS

Description of the Bonds

The Bonds will be dated the date of issuance and delivery, will bear interest initially from such date, at the rate per annum for each maturity as specified on the cover page hereof, will be payable semi-annually on each February 15 and August 15, commencing August 15, 2010, calculated on the basis of a 360-day year of twelve 30-day months, and will mature in the amounts and on the dates as set forth on the cover page hereof.

The Resolutions (as hereinafter defined) and all provisions thereof are incorporated by reference in the text of the Bonds, including, without limitation, those provisions setting forth the conditions under which the Resolutions may be modified. The Bonds provide that each registered owner, Beneficial Owner, DTC Participant or Indirect Participant (as hereinafter defined) in DTC, by acceptance of a Bond (including receipt of a book-entry credit evidencing an interest therein), assents to all of such provisions as an explicit and material portion of the consideration running to the Commonwealth to induce it to adopt the Resolutions and to issue such Bond. Copies of the Resolutions, including the full text of the forms of the Bonds, are on file at the designated office in Pittsburgh, Pennsylvania of Wells Fargo Bank, National Association, as Loan and Transfer Agent ("Loan and Transfer Agent").

Interest on the Bonds will be payable by check or draft mailed or other transfer made to the persons in whose names the Bonds shall be registered at the close of business on the last day (whether or not a business day) of the calendar month next preceding each interest payment date (the "Record Date"). Any interest on any Bond not timely paid or duly provided for shall cease to be payable to the person who is the registered owner as of the regular Record Date, and shall be payable to the person who is the registered owner at the close of business on a special record date for the payment of such defaulted interest. A special record date shall be a date not more than fifteen nor less than ten days prior to the date of the proposed payment and shall be fixed by the Loan and Transfer Agent whenever moneys become available for payment of the defaulted interest. Notice of a special record date shall be given to registered owners of the Bonds not less than fifteen days prior thereto.

Whenever the due date for payment of interest on or principal of the Bonds or the date fixed for redemption of any Bond shall be a Saturday, a Sunday, a legal holiday or a day on which banks in the Commonwealth are required or authorized by law (including by executive order) to close, then payment of such interest, principal or redemption price need not be made on such date, but may be made on the next succeeding day which is not a Saturday, a Sunday, a legal holiday or a day upon which banks in the Commonwealth are required or authorized by law (including by executive order) to close, with the same force and effect as if made on the due date for payment of principal, interest or redemption price, and no interest shall accrue thereon for any period after such due date.

Book-Entry Only System

The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the Bonds pursuant to a book-entry only system. Information regarding DTC and its book-entry system, provided by DTC, appears as Appendix D. Such information has been provided by DTC, and the Commonwealth does not assume any responsibility for the accuracy or completeness of such information. The Commonwealth may decide to discontinue use of the system of book-entry transfers through DTC (or another securities depository). In that event, Bond certificates will be printed and delivered.

For so long as the Bonds are registered in the name of DTC, or its nominee Cede & Co., the Commonwealth and the Loan and Transfer Agent will treat Cede & Co. as the registered owner of the Bonds for all purposes, including payments, notices and voting.

Neither the Commonwealth nor the Loan and Transfer Agent shall have any responsibility or obligation to any Direct or Indirect Participant or Beneficial Owner (as defined in Appendix D) with respect to (i) the accuracy of any records maintained by DTC or any Direct or Indirect Participant with respect to any beneficial ownership interest in any Bonds; (ii) the payment by any Direct or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal of, premium, if any, and interest on the Bonds; (iii) the delivery or timeliness of delivery by any Direct or Indirect Participant of any notice to any Beneficial Owner with respect to the Bonds, including, without limitation, any notice of redemption; or (iv) other action taken by DTC or Cede & Co., including the effectiveness of any action taken pursuant to an Omnibus Proxy.

Payments made by or on behalf of the Commonwealth to DTC or its nominee shall satisfy the Commonwealth's payment obligations with respect to the Bonds to the extent of such payments.

Build America Bonds

The Commonwealth has elected to designate the First Series B Bonds as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 ("ARRA") and to receive payments ("Subsidy Payments") from the United States Treasury in connection therewith. Pursuant to ARRA, the Commonwealth is to receive a Subsidy Payment from the United States Treasury, contemporaneously with each Interest Payment Date for the First Series B Bonds, equal to 35% of the interest payable on the First Series B Bonds on such date. The Subsidy Payments do not constitute a full faith and credit guarantee of the United States of America, but are required to be paid by the United States Treasury under ARRA. If the Subsidy Payments from the United States Treasury are reduced or eliminated, the First Series B Bonds are subject to extraordinary optional redemption. See "Extraordinary Optional Redemption-First Series B Bonds."

Redemption Provisions

First Series A Bonds

The First Series A Bonds are not subject to redemption prior to maturity.

First Series B Bonds

Optional Redemption

The First Series B Bonds are subject to redemption prior to their maturity, at any time, at the option of the Commonwealth, from any source of available funds, in whole, or in part from maturities designated by the Commonwealth, and within such maturities on a pro rata basis, at the "Make-Whole Redemption Price" described below.

The "Make-Whole Redemption Price" means the amount equal to the greater of the following:

(1) the issue price of the First Series B Bonds (but not less than 100%) of the principal amount of the First Series B Bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest on the First Series B Bonds to be redeemed to the maturity date of such First Series B Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the First Series B Bonds are to be redeemed, discounted to the date on which the First Series B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate (defined below), plus 25 basis points; plus, in each case, accrued interest on the First Series B Bonds to be redeemed to the redemption date.

For purpose of determining the Make-Whole Redemption Price, the following definition applies:

"Treasury Rate" means, with respect to any redemption date for a particular First Series B Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (excluding inflation-indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the First Series B Bonds to be redeemed; provided, however that if the period from the redemption date to the maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

At the request of the paying agent of the First Series B Bonds, the Make-Whole Redemption Price of the First Series B Bonds shall be determined by an independent accounting firm, investment banking firm or financial advisor retained by the Commonwealth at the Commonwealth's expense to calculate such redemption price. The Commonwealth may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and shall not be liable for such reliance.

Extraordinary Optional Redemption

The First Series B Bonds are subject to redemption prior to maturity at the option of the Commonwealth, in whole, or in part from maturities designated by the Commonwealth, and within such maturities on a pro rata basis, upon the occurrence of an Extraordinary Event (as defined below), at a redemption price (the "Extraordinary Redemption Price") equal to the greater of:

(1) the issue price of the First Series B Bonds (but not less than 100%) of the principal amount of the First Series B Bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest on the First Series B Bonds to be redeemed to the maturity date of such First Series B Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the First Series B Bonds are to be redeemed, discounted to the date on which the First Series B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate (as defined above), plus 100 basis points; plus, in each case, accrued interest on the First Series B Bonds to be redeemed to the redemption date.

An "Extraordinary Event" will have occurred if Section 54AA or Section 6431 of the Internal Revenue Code of 1986, as amended (the "Code") (as such Sections were added by Section 1531 of ARRA, pertaining to "Build America Bonds") is modified, amended or interpreted in a manner pursuant to which the Commonwealth's 35% Subsidy Payments from the United States Treasury in connection with the then outstanding First Series B Bonds are reduced or eliminated.

Mandatory Redemption

The First Series B Bonds maturing on February 15 of the years 2026 and 2030 are subject to mandatory redemption by the Commonwealth, prior to maturity, pro rata on February 15 of each of the years set forth below at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date in the following principal amounts:

Year	Principal Amount
2022	$46,205,000
2023	$48,510,000
2024	$50,980,000
2025	$53,625,000
2026*	$56,705,000
2027	$59,995,000
2028	$63,505,000
2029	$67,250,000
2030*	$71,255,000

* maturity

Notice of Redemption

Notice of such redemption shall be given not more than 60 nor less than 30 days prior to the redemption date by mailing a copy of the redemption notice by first class mail (postage paid) to the registered Owners of First Series B Bonds to be redeemed at their addresses a shown on the Bond Register which shall be maintained by the Loan and Transfer Agent. The failure to mail any such notice or any defect therein or in the mailing thereof as it affects any First Series B Bonds shall not affect the validity of the redemption proceedings of any other First Series B Bonds. Any notice mailed as provided herein shall be conclusively presumed to have been duly given, whether or not such registered Owner receives the notice. All First Series B Bonds so called for redemption will cease to bear interest after the specified redemption date, provided funds for their redemption are on deposit at the place of payment thereof at such time.

So long as the First Series B Bonds are registered in the name of DTC or its nominee, the Loan and Transfer Agent shall cause notice of any redemption of such Bonds hereunder to be made in accordance with the Letter of Representation. If at any time the book-entry-only system shall be discontinued, the Trustee shall cause any notice of redemption to be mailed by first class mail, postage prepaid to the Owners of all Bonds to be redeemed at the registered addresses appearing in the Bond Register. Each such notice shall be given in the name of the Authority and shall (i) be mailed not less than 30 nor more than 60 days prior to the redemption date, (ii) identify the First Series B Bonds to be redeemed (specifying the CUSIP numbers, if any, and certificate numbers assigned to such Bonds), (iii) specify the redemption date and the redemption price, and (iv) state that on the redemption date the First Series B Bonds called for redemption will be redeemable at the designated corporate trust office of the Loan and Transfer Agent or at the designated corporate trust office of any alternative paying agent, that interest will cease to accrue from the redemption date, and that no representation is made as to the accuracy or correctness of the CUSIP numbers printed therein or on the First Series B Bonds. No defect affecting any particular First Series B Bonds, whether in the notice of redemption or mailing thereof (including any failure to mail such notice), shall affect the validity of the redemption proceedings for the redemption of any other First Series B Bonds.

No further interest shall accrue on any First Series B Bond called for redemption after the redemption date if payment of the redemption price has been duly provided for, and the Owners of such First Series B Bond shall have no rights except to receive payment of the redemption price and the unpaid interest accrued on such First Series B Bond to the date fixed for redemption.

DTC Procedures

Investors should note that while DTC is the registered owner of the First Series B Bonds, partial redemptions (including any sinking fund payments) of the First Series B Bonds will be determined in accordance with DTC's procedures. The Commonwealth intends that redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between the Commonwealth and the Beneficial Owners of the First Series B Bonds be made in accordance with the pro rata redemption provisions described above. However, the selection of the First Series B Bonds for redemption in DTC's book-entry only system is subject to DTC's practices and procedures as in effect at the time of any such partial redemption. The Commonwealth can provide no assurance that DTC or the DTC Participants or any other intermediaries will allocate redemptions among Beneficial Owners in accordance with the pro rata redemptions provisions described above.

SECURITY AND SOURCE OF PAYMENT FOR BONDS

The Bonds are direct and general obligations of the Commonwealth to which the full faith and credit of the Commonwealth have been pledged for the payment of the interest thereon as it becomes due and the payment of the principal thereof at maturity or prior redemption. The various acts authorizing the incurrence of debt by the Commonwealth require the General Assembly to appropriate annually the moneys necessary to pay such interest and principal for which other provisions are not made. See the statutes described in the subsection "Authorization" below. Principal of and interest payments on the Bonds will be made from the General Fund.

The Constitution of the Commonwealth of Pennsylvania (the "Constitution") places a claim on revenues of the Commonwealth as security for the payment of principal of and interest on all debt of the Commonwealth. Article VIII, Section 7(d) of the Constitution provides that, if sufficient funds are not appropriated for the timely payment of the interest on and principal of all Commonwealth debt, the State Treasurer shall set apart from the first revenues thereafter received applicable to the appropriate fund, a sum sufficient to pay such interest and principal, and shall so apply the money so set apart.

The State Treasurer may be required to set aside and apply such revenues at the suit of any holder of Commonwealth obligations.

For a description of the constitutional provisions relating to the Bonds, see Appendix E. The proposed form of the opinion of the Attorney General is set forth in Appendix F and the proposed form of the opinion of Bond Counsel is set forth in Appendix G.

Authorization

The Bonds are authorized and issued pursuant to and in full compliance with the provisions, restrictions and limitations of Section 7 of Article VIII of the Constitution; the laws of the Commonwealth, including the Capital Facilities Debt Enabling Act, Act No. 1999-1, approved February 9, 1999, as amended, annual capital budget bills and various bond authorization bills enacted by the General Assembly. The Bonds are also authorized and issued pursuant to resolutions adopted by the Governor, the State Treasurer, and the Auditor General (the "Issuing Officials") on January 7, 2010, and January 13, 2010 (collectively, the "Resolutions").

Debt Limits

The Constitution (Article VIII, Section 7(a)) permits debt to be incurred (i) for purposes itemized in law and approved by voter referendum, (ii) without approval of the electorate for the rehabilitation of areas affected by man-made or natural disasters, and (iii) for capital facilities projects specifically itemized in a capital budget if such debt does not cause the amount of all net debt outstanding (as defined for purposes of that Section) to exceed one and three quarters times (1.75x) the average of the annual tax revenues of the Commonwealth deposited in all funds in the previous five fiscal years, as certified by the Auditor General (the "Constitutional Debt Limit"). The most recent semi-annual computation of the Constitutional Debt Limit and the amount of net debt outstanding subject to such limit is shown in Table 1:

Table 1
Constitutional Debt Limit[(a)]
August 31, 2009
(In Millions)

Average Annual Tax Revenues Fiscal 2004-2009	$ 32,044.1
Times 1.75	56,077.18
Less: Net Debt Outstanding[(b)]	7,497.3
Debt Issuable Within Limit	$ 48,579.9

(a) As certified by the Auditor General on August 31, 2009 (Appendix A).
(b) After credit for refunded debt.

The capital debt authorizations for the various categories of capital facilities projects is shown in Table 2.

Table 2
Aggregate Capital Debt Authorization
(In Millions)

Capital Facilities Projects Category	Debt Authorized	Issued[(a)]	Authorized But Unissued	Pro Forma Remaining Debt Authorized After Issuance Of the Bonds
Buildings and Structures	$ 27,683.4	$ 8,073.5	$ 19,609.9	$ 19,029.9
Furniture and Equipment	1,049.3	411.5	637.8	637.8
Transportation Assistance	9,672.8	2,902.8	6,770.0	6,700.0
Redevelopment Assistance	29,023.2	2,649.0	26,374.2	26,274.2
Community Colleges	35.8	28.0	7.8	7.8
Highway and Highway Bridge	24,186.9	2,212.5	21,974.4	21,874.2
Advance Construction Interstate	450.0	450.0	0	0
Flood Control	476.2	60.8	415.4	415.4
Site Development	150.0	150.0	0	0
Total	$ $92,727.5	$ 16,938.1	$ 75,789.4	$ 74,939.3

(a) Original issuance amounts; not all are presently outstanding.

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The amount of debt that may be issued in any given fiscal year for capital projects authorized in current or previous capital budgets is enacted annually by the General Assembly and approved by the Governor. The maximum amount of debt currently authorized by the fiscal year 2010 capital budget is as shown in Table 3.

Table 3
Fiscal Year 2010 Capital Budget Debt Limits[(a)]
(In Millions)

Capital Facilities Projects Category	Limits	Issued to Date	Remaining Issuable Within Limit	Pro Forma Remaining After Issuance Of the Bonds
Buildings and Structures	$ 920.0	$ 0.0	$ 920.0	$ 340.0
Furniture and Equipment	15.0	0.0	15.0	15.0
Transportation Assistance	192.0	0.0	192.0	122.0
Redevelopment Assistance	325.0	0.0	325.0	225.0
Flood Control	30.0	0.0	30.0	30.0
Highway	0.0	0.0	0.0	0.0
Bridge	200.0	0.0	200.0	100.0
Total	$ 1,682.0	$ 0.0	$ 1,682.0	$ 832.0

(a) The fiscal year 2010 capital budget debt limits became effective on December 17, 2009, and will remain in force until enactment of the fiscal year 2011 capital budget debt act.

Upon issuance of $850.0 million aggregate principal amount of the Bonds under the Capital Budget, $832.0 million principal amount of debt will remain authorized and unissued thereunder.

The Growing Greener II Acts authorized the issuance of $625.0 million aggregate principal of debt for the purpose of the maintenance and protection of the environment, open space and farmland preservation, watershed protection, abandoned mine reclamation, acid mine drainage remediation and other environmental initiatives. See “USE OF PROCEEDS-Growing Greener.” To date, bonds in the principal amount of $384.5 million have been issued pursuant to the authority of the Growing Greener II Acts. Upon the issuance of $50.0 million of the Bonds pursuant to the Growing Greener II Acts, $190.5 million principal amount of debt will remain authorized and unissued thereunder.

For a discussion of the Commonwealth’s outstanding debt and projected future issuance of general obligation debt, see “OUTSTANDING INDEBTEDNESS OF THE COMMONWEALTH.”

USE OF PROCEEDS

The Commonwealth is issuing the Bonds for the following purposes:

(i) $850,000,000 aggregate principal amount of the Bonds to provide for the construction, acquisition and major rehabilitation of capital facilities projects as described below under “Capital Facilities”; and

(ii) $50,000,000 aggregate principal amount of the Bonds to provide for maintenance and protection of the environment, open space and farmland preservation, watershed protection, abandoned mine reclamation, acid mine drainage remediation and other environmental initiatives as described below under “Growing Greener.”

The proceeds received from the sale of the Bonds (including bond premium, if any), after paying the costs of issuance, will be applied by the Commonwealth to fund the programs described below.

Capital Facilities

A portion of the proceeds of the Bonds will be deposited into the Capital Facilities Fund and applied to defray the costs of issuance of the Bonds and the financial costs of various capital facilities projects of the Commonwealth. Of the $850,000,000 aggregate principal amount of the Bonds issued for capital facilities: (i) $580,000,000 aggregate principal amount of the Bonds is to be allocated to the Department of General Services and used to pay for the construction and major rehabilitation of public buildings for the Commonwealth and its institutions; (ii) $100,000,000 aggregate principal amount of the Bonds is to be allocated to the Department of Community and Economic Development to fund redevelopment assistance projects; (iii) $70,000,000 aggregate principal amount of the Bonds is to be allocated to the Department of Transportation to fund transportation assistance projects; and (iv) $100,000,000 aggregate principal amount of the Bonds is to be allocated to the Department of Transportation to fund bridge projects. Pending application to the above purposes, the proceeds of the Bonds allocated to these purposes will be held by the State Treasurer in the Capital Facilities Fund and invested in accordance with applicable state and federal laws.

Growing Greener Projects

A portion of the proceeds of the Bonds is dedicated to the purposes of the Growing Greener II Acts and to pay the costs of issuance of the Bonds allocated to such purposes. The proceeds from $50,000,000 aggregate principal amount of the Bonds to be issued for the Growing Greener II Acts will be deposited into the Growing Greener Bond Fund and applied to the costs of maintenance and protection of the environment, open space and farmland preservation, watershed protection, abandoned mine reclamation, acid mine drainage remediation and other environmental initiatives. Pending application to the above purposes, the proceeds of the Bonds allocated to these purposes will be held by the State Treasurer in the Growing Greener Bond Fund and invested in accordance with applicable state and federal laws.

COMMONWEALTH GOVERNMENT

The Commonwealth is organized into three separate branches of government — executive, legislative and judicial — as defined in the Constitution. Five officials of the Commonwealth's executive branch are elected in statewide elections for four-year terms expiring on the dates shown below.

Name	Office	Term Expires
Edward G. Rendell	Governor	January 18, 2011
Joseph Scarnati	Lieutenant Governor	January 18, 2011
Tom Corbett	Attorney General	January 15, 2013
Robert M. McCord	State Treasurer	January 15, 2013
Jack Wagner	Auditor General	January 15, 2013

Commonwealth Employees

Employees are permitted to organize and bargain collectively. As of July 2008, 82 percent of the full-time salaried employees under the Governor's jurisdiction were covered by collective bargaining agreements or memoranda of understanding. Approximately 45 percent of state employees are represented by the American Federation of State, County and Municipal Employees ("AFSCME"). Approximately 63 percent of state employees, represented by the AFSCME, Pennsylvania Social Services Union and other unions, are covered by contracts effective July 1, 2007 and expiring on June 30, 2011. These contracts provide for a $1,250.00 one-time cash payment, which is equivalent to approximately 2.8 percent in the first year of the contract, and ten percent salary increases over the last three-year life of the contracts. Interest arbitration awards cover five other unions. Three of the awards expired June 30, 2007. Of these three awards, two have been completed in 2007 which provide a 13 percent increase over the four year term of the agreements; which now expire on June 30, 2011. The remaining 2007 award remains in negotiations. The remaining two interest arbitration awards expired June 30, 2008. One of these awards has resulted in a new agreement that runs from July 1, 2008 through June 30, 2011 and provides a 10 percent increase over a three year term. The other award establishes an agreement that runs from July 1, 2008 through June 30, 2012 and provides a 14 percent increase over a four year term. Table 4 presents the number of approved and filled positions under the Governor's jurisdiction for the period 2004 through 2008.

Table 4
Filled Salaried Positions and Employees
Under the Governor's Jurisdiction[(a)]
2004-2008

As of July 1	Total Full and Part Time Filled Salaried Positions	Total Full Time Salaried Employees	Civil Service Salaried Positions	Civil Service As a % of Total Filled Salaried Positions
2003	78,691	78,691	54,817	69.7
2004	76,410	76,087	52,869	69.5
2005	77,041	76,726	53,163	69.0
2006	78,733	78,442	54,428	69.1
2007	77,013	76,716	52,918	68.7
2008	77,531	77,259	53,141	68.5

(a) Excludes employees of the legislative and judicial branches, the Department of the Auditor General, the Treasury Department, the State System of Higher Education and independent agencies, boards and commissions.
Source: Office of Administration, *Governor's Annual Work Force Reports*.

COMMONWEALTH FINANCIAL STRUCTURE AND PROCEDURES

The Constitution and the laws of the Commonwealth require all payments from the State Treasury, with the exception of refunds of taxes, licenses, fees and other charges, to be made only by duly enacted appropriations. Amounts appropriated from a fund may not exceed its actual and estimated revenues for the fiscal year plus any unappropriated surplus available. Appropriations from the principal operating funds of the Commonwealth (the General Fund, the Motor License Fund and the State Lottery Fund) are generally made for one fiscal year and are returned to the unappropriated surplus of the fund (a lapse) if not spent or encumbered by the end of the fiscal year. The Commonwealth's fiscal year begins July 1 and ends June 30. (Fiscal year 2009 refers to the fiscal year ending June 30, 2009.) See Appendix C for a further description of the fiscal administration of the Commonwealth.

Description of Funds

The Commonwealth utilizes the fund method of accounting. For purposes of governmental accounting, a "fund" is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Each fund records the cash and/or other resources together with all related liabilities and equities that are segregated for the purpose of the fund. In the Commonwealth, funds are established by legislative enactment or in certain limited cases by administrative action. Over 150 funds have been established and currently exist for the purpose of recording the receipt and disbursement of moneys received by the Commonwealth. Annual budgets are adopted each fiscal year for the principal operating funds of the Commonwealth and several other special revenue funds. Expenditures and encumbrances against these funds may be made only pursuant to appropriation measures enacted by the General Assembly and approved by the Governor.

The General Fund, the Commonwealth's largest operating fund, receives all tax revenues, non-tax revenues and federal grants and entitlements that are not specified by law to be deposited elsewhere. The majority of the Commonwealth's operating and administrative expenses are payable from the General Fund. Debt service on all bond indebtedness of the Commonwealth, except that issued for highway purposes or for the benefit of other special revenue funds, is payable from the General Fund.

The Motor License Fund receives all tax and fee revenues relating to motor fuels and vehicles except the revenues from one-half cent per gallon of the liquid fuels tax, which are deposited in the Liquid Fuels Tax Fund for distribution to local municipalities. All revenues relating to motor fuels and vehicles are required by the Constitution to be used only for highway purposes. Most federal aid revenues designated for transportation programs and tax revenues relating to aviation fuels are also deposited in the Motor License Fund. Operating and administrative costs for the Department of Transportation and other Commonwealth departments conducting transportation related programs, including the highway patrol activities of the Pennsylvania State Police, are also paid from the Motor License Fund. Debt service on bonds issued by the Commonwealth for highway purposes is payable from the Motor License Fund.

Other special revenue funds have been established by law to receive specified revenues that are appropriated to departments, boards and/or commissions for payment of their operating and administrative costs. Such funds include the Game, Fish, Boat, Banking Department, Milk Marketing, State Farm Products Show, Environmental Stewardship, State Racing, and Tobacco Settlement Funds. Some of these special revenue funds are required to transfer excess revenues to the General Fund, and some receive funding, in addition to their specified revenues, through appropriations from the General Fund.

The Tobacco Settlement Fund is a special revenue fund established to receive tobacco litigation settlement payments paid to the Commonwealth. The Commonwealth is one of forty-six states that settled certain smoking-related litigation in a November 1998 master settlement agreement with participating tobacco product manufacturers (the "Tobacco MSA"). Under the Tobacco MSA, the Commonwealth is entitled to receive a portion of payments made pursuant to the Tobacco MSA by tobacco product manufacturers participating in the Tobacco MSA. Most revenues to the Tobacco Settlement Fund are subject to annual appropriation by the General Assembly and approval by the Governor.

The Tax Stabilization Reserve Fund and the Budget Stabilization Reserve Fund that replaced the Tax Stabilization Reserve Fund following its abolishment in 2002 are special revenue funds designated to receive a statutorily determined portion of the budgetary basis fiscal year-end surplus of the General Fund. The Budget Stabilization Reserve Fund was established in July 2002 after the Tax Stabilization Reserve Fund was abolished and its balance transferred to the General Fund for the 2002 fiscal year budget. The Budget Stabilization Reserve Fund is to be used for emergencies threatening the health, safety or welfare of citizens or during downturns in the economy that result in significant unanticipated revenue shortfalls not able to be addressed through the normal budget process. Assets of the fund may be used upon recommendation by the Governor and an approving vote by two-thirds of the members of each house of the General Assembly. For GAAP (as defined below) reporting purposes, the Budget Stabilization Reserve Fund (previously designated the Tax Stabilization Reserve Fund) has been reported as a fund balance reservation in the General Fund (governmental fund category) since fiscal year 1999. Prior to that fiscal year, the Tax Stabilization Reserve Fund was reported, on a GAAP basis, as a designation of the General Fund unreserved fund balance. See "Budget Stabilization Reserve Fund and Tax Stabilization Reserve Fund" below.

The Commonwealth maintains trust and agency funds that are used to administer funds received pursuant to a specific bequest or as an agent for other governmental units or individuals.

Enterprise funds are maintained for departments or programs operated like private enterprises. Two of the largest of such funds are the State Stores Fund and the State Lottery Fund. The State Stores Fund is used for the receipts and disbursements of the Commonwealth's liquor store system. Sale and distribution of all liquor within Pennsylvania is a government enterprise. The State Lottery Fund is also an Enterprise fund for the receipt of lottery ticket sales and lottery licenses and fees. Its revenues, after payment of prizes, are dedicated to paying the costs of programs benefiting the elderly and handicapped in Pennsylvania.

In addition, the Commonwealth maintains funds classified as working capital, bond, and sinking funds for specified purposes.

Accounting Practices

Financial information for the principal operating funds of the Commonwealth is maintained on a budgetary basis of accounting. The Commonwealth also prepares annual financial statements in accordance with generally accepted accounting principles ("GAAP"). Annual financial statements prepared in accordance with GAAP are audited jointly by the Department of the Auditor General and an independent public accounting firm.

Budgetary Basis

A budgetary basis of accounting is used for ensuring compliance with the enacted operating budget and is governed by applicable statutes of the Commonwealth and by administrative procedures. The Constitution provides that operating budget appropriations shall not exceed the actual and estimated revenues and unappropriated surplus available in the fiscal year for which funds are appropriated. Annual budgets are enacted for the General Fund and certain special revenue funds that together represent the majority of expenditures of the Commonwealth. The annual budget classifies fund revenues as Commonwealth revenues, augmentations, federal revenues, or restricted receipts and revenues.

Commonwealth revenues are revenues from taxes and from non-tax sources such as licenses and fee charges, penalties, interest, investment income and other miscellaneous sources. Augmentations consist of departmental and institutional billings that supplement an appropriation of Commonwealth revenues, thereby increasing authorized spending. For example, patient billings for services at Commonwealth-owned institutions are augmentations that supplement Commonwealth revenues appropriated to each institution for operating costs. Federal revenues are those federal aid receipts that pay for or reimburse the Commonwealth for funds disbursed for federally assisted programs. Restricted receipts and revenues are funds that are restricted to a specific use or uses by state law, administrative decision, or the provider of the funds. Only Commonwealth revenues and expenditures from these revenues are included in the computation made to determine whether an enacted budget is constitutionally balanced. Augmenting revenues and federal revenues are considered to be self-balancing with expenditures from their respective revenue sources.

The Commonwealth's budgetary basis financial reports for its governmental funds are based on a modified cash basis of accounting as opposed to the modified accrual basis prescribed by GAAP. Under the Commonwealth's budgetary basis of accounting, tax receipts, non-tax revenues, augmentations and all other receipts are recorded at the time cash is received. An adjustment is made at fiscal year-end to include accrued unrealized revenue; that is, revenues earned but not collected. Revenues accrued include estimated receipts from (i) sales and use, personal income, realty transfer, inheritance, cigarette, liquor, liquid fuel, fuels, and oil company franchise taxes, and interest earnings, and (ii) federal government commitments to the Commonwealth. Expenditures are recorded at the time payment requisitions and invoices are submitted to the Treasury Department for payment. Appropriated amounts are reserved for payment of contracts for the delivery of goods or services to the Commonwealth through an encumbrance process. Unencumbered appropriated funds are automatically lapsed at fiscal year-end and are available for re-appropriation. Estimated encumbrances are established at fiscal year-end to pay certain direct expenditures for salaries, wages, travel, and utility costs payable against current year appropriations but disbursed in the subsequent fiscal year. Recording of the applicable expenditure liquidates the encumbered amount. Over-estimates of fiscal year-end encumbrances are lapsed in the subsequent fiscal year and under-estimates are charged to a subsequent fiscal year appropriation. Appropriation encumbrances are shown on the Commonwealth's balance sheet as a reservation of fund balance.

Other reservations of fund balance include (i) the unexpended balance of continuing appropriations (that is, appropriations that do not lapse at fiscal year-end), and (ii) requested appropriation supplements and deficiency appropriations. Revenues dedicated for specific purposes and remaining unexpended at the fiscal year-end are likewise reserved.

GAAP Financial Reporting

At fiscal year-end, budgetary basis fund financial information, both revenues and expenditures, is adjusted to reflect appropriate accruals for financial reporting in conformity with GAAP. The Commonwealth is not required to prepare GAAP financial statements and does not prepare them on an interim basis. GAAP fund financial reporting requires a modified accrual basis of accounting for governmental funds, while proprietary and fiduciary funds are reported on the accrual basis of accounting.

Fund financial statements of the Commonwealth prepared under GAAP differ from those traditionally prepared on a budgetary basis for several reasons. Among other differences, the GAAP fund financial statements (i) generally recognize revenues when they become measurable and available rather than when cash is received, (ii) report expenditures when goods and services are received and a liability incurred rather than when cash is disbursed, (iii) include a combined balance sheet for the Commonwealth presented by GAAP fund type rather than by Commonwealth fund, and (iv) include activities of all funds in the reporting entity, including agencies and authorities usually considered as independent of the Commonwealth for budgetary purposes. Adjustments to budgetary basis revenues and expenditures required to conform to GAAP accounting generally require including (i) corporation, sales, and personal income tax accruals, (ii) tax refunds payable and tax credits, and (iii) expenditures incurred but not yet posted as expenditures or not covered by appropriations.

An independent public accounting firm and the Department of the Auditor General jointly audit the Commonwealth's annual GAAP basis financial statements. The audited Basic Financial Statements are a component of the Commonwealth's Comprehensive Annual Financial Report ("CAFR"). The CAFRs for recent fiscal years, including the fiscal year ended June 30, 2008, have been filed with each Nationally Recognized Municipal Securities Information

Repository (a "NRMSIR") currently recognized by the Securities and Exchange Commission and are available from any NRMSIR and at the Budget & Financial Reports section of the Office of the Budget's web site - www.budget.state.pa.us - and such CAFRs are incorporated herein by reference. In February 2004, the Commonwealth restated its GAAP basis financial statements for the fiscal year ended June 30, 2002, for reasons discussed in "COMMONWEALTH FINANCIAL PERFORMANCE – Restatement of Financial Statements." The Commonwealth has filed both the restated financials and restated CAFR with each NRMSIR and has posted them at the Office of the Budget's web site. **Beginning with the CAFR for the fiscal year ended June 30, 2002 and continuing in subsequent CAFRs, the Commonwealth has incorporated several new accounting and reporting standards that affect the comparability of financial information for those fiscal years to GAAP basis financial information reported for fiscal years prior to the adoption of such new standards. See "New Governmental Accounting and Reporting Standards" below.**

New Governmental Accounting and Reporting Standards

Beginning with its GAAP basis financial statements for the fiscal year ended June 30, 2002, the Commonwealth adopted several new accounting and reporting standards established by the Governmental Accounting Standards Board in its Statements 33, 34, 35, 36, 37 and 38 (collectively, the "New Standards"). Among other things, the New Standards require presentation of government-wide and fund financial statements that constitute basic financial statements and replace general-purpose financial statements reported under former standards. Government-wide financial statements are intended to portray the government "as a whole" while fund financial statements provide fund-specific information. Government-wide financial statements are intended to describe the total cost of providing governmental services and disclose whether the Commonwealth's financial condition improved or weakened during the fiscal year. Other features of the new government-wide financial statements are the reporting of infrastructure assets and related depreciation. Previously, the Commonwealth did not report infrastructure values or accumulated depreciation related to general fixed assets. As part of implementing the New Standards, effective July 1, 2001, the Commonwealth reclassified and/or restated numerous fund balance amounts previously reported at June 30, 2001 and reported governmental activities net assets at June 30, 2001. Note B to the financial statements in the June 30, 2002 CAFR provides a detailed explanation of the nature and amount of such restatements. The New Standards also require providing supplementary information, including a Management's Discussion and Analysis of the financial statements. Beginning with fiscal year 2002 the Commonwealth also changed how functional expenditure categories are defined. All of these changes may hamper the comparability of GAAP basis financial information for fiscal years ended June 30, 2002 and later to financial reports for years prior to the implementation of the New Standards.

Investment of Funds

The Treasury Department is responsible for the deposit and investment of most funds belonging to the Commonwealth, including the proceeds of the Bonds and the funds held for the periodic payment of interest on and maturing principal of the Bonds. The Commonwealth's Fiscal Code contains statutory limitations on the investment of funds by the Treasury Department. The Board of Finance and Revenue, a six-person board of state officials chaired by the State Treasurer, is authorized to establish the aggregate amount of funds that may be invested in some of the various categories of permitted investments. The State Treasurer ultimately determines the asset allocation and selects the investments within the parameters of the law.

The Commonwealth's Fiscal Code permits investments in the following types of securities: (i) United States Treasury securities and United States Agency securities maturing within two years of issue; (ii) commercial paper issued by industrial, common carrier or finance companies rated "Prime One" or its equivalent; (iii) certificates of deposit of Pennsylvania-based commercial banks, savings banks or savings and loans; (iv) repurchase obligations secured by Federal obligations; (v) banker's acceptances written by domestic commercial banks with a rating of "Aa" or better, or its equivalent; and (vi) other non-equity investments not to exceed ten percent of assets subject to a "prudent investor" test. The Treasury Department maintains additional investment restrictions contained in its Investment Policy Guidelines. A summary of the Investment Policy Guidelines and a report on investment activity and performance of funds invested by the Treasury Department are contained in a report periodically prepared and publicly distributed by the Treasury Department.

Additionally, since June 1999, the State Treasurer has been legislatively authorized to invest Commonwealth moneys in securities under the "prudent investor" standard. The common investment pool operated by the State Treasurer for the investment of operating funds of the Commonwealth maintains a portion of its investments in securities subject to this test. The legislative authorization to invest in such securities has been extended until December 31, 2010.

Budget Stabilization Reserve Fund and Tax Stabilization Reserve Fund

Legislation enacted with the adoption of the fiscal year 2003 budget abolished the Tax Stabilization Reserve Fund and transferred its balance of $1.038 billion to the General Fund. That legislation also established a new reserve fund named the Budget Stabilization Reserve Fund and initially directed $300 million of funding from the General Fund be deposited to the fund during fiscal year 2003. Subsequently, the General Assembly repealed the $300 million transfer allowing that amount to remain in the General Fund to help offset anticipated revenue shortfalls to the fiscal year 2003 budget.

Balances in the Budget Stabilization Reserve Fund, the successor to the Tax Stabilization Reserve Fund, may be used to alleviate emergencies threatening the health, safety or welfare of the Commonwealth's citizens or to offset unanticipated revenue shortfalls due to economic downturns. Income to the fund is provided by the transfer of a legislatively determined portion of the General Fund budgetary basis unappropriated surplus at the close of a fiscal year, by investment income earned by the fund, and by specific appropriation from other available funds by the General Assembly. The Budget Stabilization Reserve Fund is intended to accumulate a balance equal to 6 percent of General Fund revenues. Beginning with fiscal year 2003, 25 percent of any fiscal year-end surplus is to be deposited into the Budget Stabilization Reserve Fund. When the Budget Stabilization Reserve Fund balance reaches or exceeds a level equal to 6 percent of General Fund revenues, the proportion of the General Fund's fiscal year-end balance to be transferred to the Budget Stabilization Reserve Fund is to be lowered from 25 percent to 10 percent. The General Assembly may appropriate additional amounts to this fund at any time. For fiscal year 2006, $171.4 million was transferred to the Fund, which represented the required statutory transfer of 25 percent of the $685.4 million unappropriated surplus balance. At the end of the 2007 fiscal year, the Commonwealth's unappropriated surplus balance was $707.8 million which resulted in a statutorily required transfer of $176.9 million to the Budget Stabilization Reserve Fund. In July 2008, the statutory transfer of 25 percent of the Commonwealth's unappropriated surplus balance was suspended for one year. At present, the Commonwealth maintains a balance of approximately $755.0 million in the Budget Stabilization Reserve Fund. The enacted budget for fiscal year 2010 includes no transfers into the Budget Stabilization Reserve Fund of any unappropriated surplus existing as of June 30, 2009, and it includes a transfer of the entire balance of the Budget Stabilization Reserve Fund to the General Fund to assist with the enactment of a balanced budget for fiscal year 2010.

Prior to enactment of the fiscal year 2010 operating budget, the Commonwealth maintained balances in various funds and accounts, including the Budget Stabilization Reserve Fund, totaling approximately 8.5 percent of the Commonwealth's annual operating costs. Following enactment of the fiscal year 2010 operating budget the amounts available in these various funds and accounts is projected to decline to 3.2 percent. Such remaining balances may also be expended through either executive or legislative action to address unforeseen budgetary stresses that could occur. Balances in the Budget Stabilization Reserve Fund are to be used only when emergencies involving the health, safety or welfare of the residents of the Commonwealth or downturns in the economy resulting in significant unanticipated revenue shortfalls cannot be dealt with through the normal budget process. Funds in the Budget Stabilization Reserve Fund may be appropriated only upon the recommendation of the Governor and the approval of a separate appropriation bill by a vote of two-thirds of the members of both houses of the General Assembly. Any funds appropriated from the Budget Stabilization Reserve Fund that are unspent are returned to the Budget Stabilization Reserve Fund.

COMMONWEALTH FINANCIAL PERFORMANCE

Recent Developments

The economic recession gripping the nation adversely affected the Commonwealth's revenue receipts during fiscal year 2009. General Fund revenue collections declined 8.6 percent on a year-over-year basis during fiscal year 2009 with final collections $3,254.6 million or 11.3 percent below the enacted budgetary estimate.

In response to declining revenue collections in fiscal year 2009, the Commonwealth implemented a number of steps to reduce expenditures during fiscal year 2009. First, the Commonwealth implemented three rounds of budget cuts or "freezes," which reduced the ability of agencies to spend funds appropriated during fiscal year 2009. Total budget cuts of $505 million, or approximately 4.25 percent, were implemented during fiscal year 2009 in agencies under the Governor's jurisdiction. Additionally, the Commonwealth implemented a general hiring freeze to reduce costs, it restricted out-of-state travel, it banned the purchase of new and replacement vehicles and reduced the size of the state fleet by 1,000 vehicles. Fiscal year 2009 and 2010 salaries for management and non-union employees were frozen at current levels. A total of $634.2 million in appropriations were lapsed during fiscal year 2009. As result of Commonwealth financial operations during fiscal year 2009, the preliminary unappropriated surplus balance decreased to -$2,742.6 million, including the application of the beginning balance from prior years operations. See "Fiscal Year 2009 Financial Results."

Due to the significant decline in fiscal year 2009 General Fund revenues and additional fiscal pressures resulting from the national economic recession, the General Assembly debated the fiscal year 2010 General Fund budget beyond the Constitutional enactment deadline of June 30, 2009.

However, on August 5, 2009, the Governor signed into law, Act 1A, which provided $11 billion of appropriations towards the operation of critical public health and safety services and to fund general government operations for the Commonwealth. In signing Act 1A, the Governor also line-item vetoed nearly $13 billion of appropriations for fiscal year 2010. The resulting legislation has been commonly referred to as a "bridge budget," which provided for full fiscal year 2010 funding for: 1) essential general government operations, including the payment of wages and salaries to most Commonwealth employees; 2) the payment of general obligation debt service; 3) the payment of appropriation and/or lease-supported debt of the Commonwealth; 4) the incarceration of convicted offenders within state correctional institutions; 5) the provision of state police services, and; 6) certain mandated costs for the provision of health and welfare programs. On October 9, 2009, the Governor signed into law the majority of the enacted fiscal year 2010 General Fund Budget. Additional fiscal year 2010 General Fund Budget items were enacted on December 17, 2009 and January 8, 2010. See "Fiscal Year 2010 Budget"

Introduction

The most recent Commonwealth audited financial statements are available in the CAFR issued by the Commonwealth for the fiscal period ended June 30, 2008 ("fiscal year 2008"), which was filed with each NRMSIR on January 16, 2009. The application in the CAFR for fiscal year 2002 and subsequent years by the Commonwealth, of the New Standards affected the comparability of financial information for that and subsequent fiscal years to GAAP basis financial information reported for earlier fiscal years. See "COMMONWEALTH FINANCIAL STRUCTURE AND PROCEDURES - New Governmental Accounting And Reporting Standards." Information contained in the fund financial statements for fiscal years 2002 through 2008 continues to report what was reported for governmental funds in the General Purpose Financial Statements in CAFRs for prior fiscal years, although fund reclassifications and changed definitions for categories of expenditures for fiscal year 2002 and subsequent fiscal years will hamper comparability to data for prior fiscal years.

Copies of CAFRs recently issued by the Commonwealth are available from (i) the Secretary of the Budget, Ms. Mary Soderberg, Attn: Mr. Mike Higgins, 6th Floor, Strawberry Square Bell Tower, Harrisburg, Pennsylvania 17101 (Telephone (717) 787-5312), and (iii) the Budget & Financial Reports section of the Office of the Budget's web site at www.budget.state.pa.us, which CAFRs are incorporated herein by reference. The basic financial statements for fiscal year 2008 are incorporated herein by reference. This means that (i) the incorporated information is considered part of this Official Statement, and (ii) such information should be reviewed by prospective purchasers of the Bonds as a part of their review of this entire Official Statement.

Government-Wide Financial Data (GAAP Basis)

Government-wide financial statements report financial position and results of activity for the Commonwealth as a whole. Government-wide statements do not report information fund-by-fund; rather, they reveal information for all governmental activities and all business-type activities in separate columns. In government-wide statements, for both governmental and business-type activities, the economic resources measurement focus and accrual basis of accounting are used, with revenues and expenses recognized when they occur, rather than when cash is received or paid. This results in assets including an estimate of the total amount of receivables due at fiscal year-end that are expected to be collected in the future. Capital assets are reported with acquisition or construction costs being reported when the assets are placed in service less accumulated depreciation. Reported liabilities include all liabilities, regardless of when payment is due, including bond principal, employee disability claims liability, and employee compensated absence liabilities.

Table 5 presents condensed financial statement information derived from the Commonwealth's government-wide June 30, 2008 Statement of Net Assets and includes amounts for the "primary government" only.

Table 5
Condensed Statement of Net Assets
Primary Government
Fiscal Year Ended June 30, 2008
(In Billions)

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments	$ 14.5	$ 6.7	$ 21.2
Capital assets (net)	25.1	0.1	25.2
All other assets	6.9	1.3	8.2
Total Assets	$ 46.5	$ 8.1	$ 54.6
Liabilities:			
Accounts payable	$ 5.3	$ 0.7	$ 6.0
All other current liabilities	5.7	1.7	7.4
Total Current Liabilities	11.0	2.4	13.4
Bonds payable	8.0	-	8.0
All other long-term liabilities	1.9	2.5	4.4
Total long-term liabilities	9.9	2.5	12.4
Total liabilities	$ 20.9	$ 4.9	$ 25.8
Net assets:			
Invested in capital assets, net of related debt	$ 21.5	$ 0.1	$ 21.6
Restricted	4.7	3.2	7.9
Unrestricted	(0.6)	(0.1)	(0.7)
Total Net Assets	$ 25.6	$ 3.2	$ 28.8

Source: Comprehensive Annual Financial Report, fiscal year ended June 30, 2008.

During the fiscal year ended June 30, 2008, the overall financial position (net assets) of the Commonwealth, including both governmental and business-type activities, increased by $0.9 billion, or 3.2 percent of total beginning net assets of $27.9 billion. For governmental activities, the net increase in net assets was $1.3 billion or 5.3 percent of beginning net assets of $24.3 billion. Total investments, excluding the State Employees' Retirement Fund and all other fiduciary funds, totaled over $19.3 billion and total cash balances were over $1.8 billion. These amounts represent considerable financial resources for the current and future fiscal years. The increase in governmental activities net assets ($1.3 billion) was $400 million less than the prior year change, where revenues, transfers and special items exceeded expenses by $1.7 billion. These increases represented significant year-over-year improvements in the Commonwealth's overall financial position, respectively, during the fiscal years ended June 30, 2008 and 2007. The $0.4 billion decrease in total net assets for business-type activities for the fiscal year ended June 30, 2008 followed a $0.3 billion increase during the prior fiscal year. The $0.7 billion year over year decrease was partially attributable to a net assets decrease of $0.1 billion in the unemployment compensation program, where the prior year net assets increase was over $0.2 billion. During the fiscal year ended June 30, 2008, unemployment compensation revenues decreased by

$0.1 billion while expenses increased by $0.2 billion; in the prior year revenues increased and expenses decreased. Statutory contribution decreases occurred during both fiscal years. Also, during the fiscal year ended June 30, 2008, combined decreases in net assets of the State Lottery Fund ($212 million decrease compared to $9.4 million decrease in the prior year) and the Tuition Payment Fund ($132 million decrease compared to $52 million increase in the prior year) were reported.

Financial Data for Governmental Fund Types (GAAP Basis)

Governmental fund financial statements provide fund-specific information about the General Fund, the Motor License Fund, and the Tobacco Settlement Fund (initially reported for fiscal year 2002) and for other Commonwealth funds categorized as governmental funds and reported as such in the General Purpose Financial Statements of prior fiscal years. Where government-wide financial statements cover the entirety of the Commonwealth, fund financial statements provide a more detailed view of the major individual funds established by the Commonwealth. Fund financial statements further differ from government-wide statements in the use by the latter of the current financial resources measurement focus and the modified accrual basis of accounting.

The governmental funds balance sheet reports total fund balances for all governmental funds. Assets of the Commonwealth's governmental funds (the General Fund, the Motor License Fund and the Tobacco Settlement Fund are major governmental funds) as of June 30, 2008 were $21,239.38 million. Liabilities for the same date totaled $12,409.46 million, leaving a fund balance of $8,829.9 million, an increase of $304.2 million from the fund balance at June 30, 2007. On a fund specific basis, the fund balance for the General Fund decreased by $396.8 million, the fund balance for the Motor License Fund increased by $147.7 million, the fund balance for the Tobacco Settlement Fund decreased by $73.3 million and the fund balance for aggregated non-major funds increased by $626.5 million. See "General Fund – Fiscal Year 2008 Financial Results."

To help understand the relationship between the Commonwealth's GAAP fund balance (fund perspective) for governmental funds and the Commonwealth's governmental net assets (government-wide perspective) under the new presentation of financial information, the following reconciliation is presented:

Table 6
Reconciliation of the Balance Sheet
Govermental Funds (Fund Perspective) to
the Statement of Net Assets - Governmental Activities
June 30, 2008
(In Thousands)

Fund Balances - Governmental Funds		
General Fund	$	2,974.1
Motor License Fund		1,566.5
Tobacco Settlement Fund		1,157.7
Nonmajor Funds		3,131.6
Total Fund Balance - Governmental Funds	$	8,829.9
Plus: Capital Assets, including infrastructure		38,645.1
Less: Accumulated depreciation		(13,635.7)
Plus: Deferred revenue		2,373.1
Plus: Additional accrued receivables		287.0
Plus: Net assets of internal service funds		88.5
Plus: Inventories		82.7
Less: Long-term liabilities		(11,091.9)
Total Net Assets - Governmental Activities	$	25,578.7

More detailed information with respect to the General Fund and the Motor License Fund, major operating funds that are categorized as governmental funds, is presented in Table 7 (General Fund) and in Table 9 (Motor License Fund).

The financial tables that follow containing GAAP basis financial data are unaudited but are derived from the Commonwealth's audited financial statements. The discussion of financial performance on a budgetary basis for prior fiscal years is based on an analysis of budget numbers and not on numbers prepared in accordance with GAAP. Likewise, the discussion of the financial figures for fiscal year 2009 and the enacted budget for fiscal year 2010 reflects a budgetary basis analysis rather than a GAAP basis analysis.

General Fund

Financial Results for Recent Fiscal Years (GAAP Basis)

During the five-year period from fiscal year 2004 through fiscal year 2008, total revenues and other sources increased by an average of 3.2 percent annually. Tax revenues during this same period increased by an annual average of 5.6 percent with a portion of the average annual growth rate attributable to various tax rate and base changes enacted over the same period. During the past several fiscal years, fees and license income and other financing sources such as transfers from other funds have continued to become a larger portion of income to the General Fund. Expenditures and other uses during the fiscal years 2004 through 2008 rose at an average annual rate of 3.9 percent. Expenditures for public education during this period increased at an average annual rate of 5.4 percent; health and human services expenditures increased at an average annual rate of 4.0 percent; and capital outlays decreased at an average annual rate of 39.2 percent. Commonwealth expenditures for direction and support services (state employees and government administration) decreased at an average annual rate of 6.5 percent during the fiscal years 2004 through 2008. The fund balance at June 30, 2008 totaled $2,974.1 million, a decrease of $396.8 million from the balance at June 30, 2007. The fiscal year 2008 year-end unreserved-undesignated portion of the fund balance was $9.6 million, $359.0 million below the amount recorded for fiscal year 2007 year's end.

Table 7, on the next page, presents a summary of revenues and expenditures (GAAP basis) for the General Fund, (including the Budget Stabilization Reserve Fund) for the fiscal years 2004 through 2008.

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Table 7
Results of Operations–General Fund
GAAP Basis–Unaudited
(In Thousands)

	Fiscal Year Ended June 30				
	2004	**2005**	**2006**	**2007**	**2008**
Fund Balance — Beginning of Period	$ 2,357,713	$ 3,006,514	$ 2,869,109	$ 2,969,549	$ 3,370,866
Revenues:					
Taxes	$ 21,190,494	$ 22,841,136	$ 24,783,040	$ 25,992,166	$ 26,390,658
Licenses and fees	275,898	300,450	294,728	366,519	372,854
Intergovernmental	14,790,701	15,102,454	14,662,940	15,160,953	15,419,122
Other revenues	2,423,649	4,053,837	2,970,801	1,782,509	1,748,866
Other Financing Sources:					
Operating transfers in	133,670	62,912	88,930	200,564	119,514
Other additions	1,535	640	568	1,582	529
TOTAL REVENUES AND OTHER SOURCES	$ 38,815,947	$ 42,361,429	$ 42,801,007	$ 43,504,293	$ 44,051,543
Expenditures:					
Direction and supportive services	$ 1,412,250	$ 2,047,999	$ 2,062,113	$ 892,397	$ 1,079,972
Protection of persons and property	2,958,160	3,013,875	3,278,962	3,335,713	3,546,365
Health and human services	20,816,721	23,361,454	23,135,166	23,536,324	24,317,283
Public education	10,520,428	11,382,118	11,666,929	12,372,125	12,994,517
Recreation and cultural enrichment	225,367	292,981	297,854	353,018	331,454
Economic development	963,926	987,325	956,411	1,204,253	1,122,067
Transportation	351,911	449,228	443,270	434,737	24,853
Capital outlay	142,651	27,305	27,758	25,275	19,496
Debt service	-	-	5,064	3,230	34
Other Uses:					
Operating transfers out	775,732	936,549	827,040	945,904	1,012,267
TOTAL EXPENDITURES AND OTHER USES	$ 38,167,146	$ 42,498,834	$ 42,700,567	$ 43,102,976	$ 44,448,308
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES	648,801	(137,405)	100,440	401,317	(396,765)
Fund Balance — End of Period	$ 3,006,514	$ 2,869,109	$ 2,969,549	$ 3,370,866	$ 2,974,101
Components of Fund Balance					
Reserved for encumbrances	$ 259,178	$ 617,861	$ 709,115	$ 570,027	$ 568,678
Reserved for advances and other	622,292	809,911	751,062	1,508,214	2,016,633
Unreserved — designated	491,718	514,174	719,414	923,966	379,169
Unreserved — undesignated	1,633,326	927,163	789,958	368,659	9,621
TOTAL FUND BALANCE	$ 3,006,514	$ 2,869,109	$ 2,969,549	$ 3,370,866	$ 2,974,101

Source: Compiled from Office of the Budget, Comprehensive Annual Financial Report for fiscal years ended June 30, 2004 through 2008.

Fiscal Year 2007 Financial Results

GAAP Basis. At June 30, 2007, the General Fund reported a fund balance of $3,370.9 million, an increase of $401.4 million from the reported $2,969.5 million fund balance at June 30, 2006. On a net basis, total assets increased by $761.3 million to $11,161.5 million. Liabilities increased by $359.9 million to $7,790.6 million largely because of an increase in unearned revenue ($117.2 million) and an increase in accounts payable ($194.1 million). The overall increase in fund balance, $401 million during the fiscal year, was $300 million more than the prior fiscal year increase in fund balance of $101 million.

General Fund tax revenues increased by 5 percent due to slower economic growth during the fiscal year ended June 30, 2007. Personal income tax revenues rose by 8 percent, with most of the growth occurring within the non-employer-withheld portion of the personal income tax. This growth can be attributed to strong capital gains that caused regular quarterly personal income tax payments in April 2007 to exceed April 2006 levels by 19.5 percent. Overall corporation taxes revenues increased by 3 percent due to strong corporate profit growth and both telecommunications and electric company gross receipts tax revenues that were higher than the prior year. However, these increases were offset by a scheduled decline in Capital Stock/Foreign Franchise Tax revenues due to the continuance of the capital stock and foreign franchise tax phase-out. Finally, cigarette tax revenues decreased by 5 percent due to a decline in consumption. Charges of sales and services decreased by $1.416 billion due almost exclusively to a $1.411 billion decrease related to the reporting of cash receipts and disbursements related to Commonwealth employee benefit costs which are charged to Commonwealth agencies on a biweekly basis. Such cash receipts and disbursements were formerly reported on a "gross" basis and reported as part of General Fund revenues (Charges for sales and services) and expenditures (Direction and supportive services). Intergovernmental revenues increased by a net $498 million, resulting primarily from certain newer federal programs and higher amounts accrued for certain federal programs. Total General Fund revenues increased by $590 million (1.36 percent) during this period.

For the fiscal year ended June 30, 2007, total General Fund expenditures increased by $284 million, less than 1 percent. Reported expenditures for direction and supportive services decreased by a net $1,170 million, due primarily to: (1) a $1,378 million decrease related to the reporting of cash receipts and disbursements related to Commonwealth employee benefits which are charged to Commonwealth agencies on a biweekly basis. Such cash receipts and disbursements were formerly reported on a "gross" basis and reported as part of General Fund revenues (Charges for sales and services) and expenditures (Direction and supportive services); and (2) on a net basis, other increases of $208 million, including a higher expenditure posting ($107 million) associated with intra-fund expenditure/transfers eliminations, higher Revenue Department ($19 million) collection and enforcement efforts (including new expenditures for Gaming compliance) and higher interest payments on tax refunds/credits, and higher General Services Department ($14 million) expenditures for structural repair/maintenance. Public education expenditures increased by $706 million due primarily to increases in basic education ($294 million), school employee retirement ($114 million) and several other subsidies to school districts ($298 million), including newer state-funded programs. The net changes in higher education were not significant during the fiscal year. Health and human services expenditures increased by $402 million, caused by a higher aggregate need for child protection and development services, medical services and income or cash grant assistance. Overall, federal funding of health and human services declined by $187 million and state funding increased by $589 million during the fiscal year. Expenditures for economic development increased by $247 million primarily because of: (1) much higher budgetary control waivers ($98 million), new programs ($30 million), higher grant awards ($10 million) and higher amounts appropriated ($6 million) for the Community and Economic Development Department; and (2) higher Labor and Industry Department expenditures for modernization and training programs ($85 million).

Reported transfers to the General Fund increased by $112 million primarily because of: (1) a $70 million increase in the State Stores Fund profit transfer; (2) a new $25 million transfer from the State Gaming Fund; and (3) a new $17.5 million transfer from the Manufacturing Fund. Reported transfers from the General Fund increased by a net $119 million, mainly because of: (1) a $136 million increase to debt service funds, and (2) offsetting that increase, no current year transfer to Emergency Energy Assistance, which was over $19 million in the prior year.

Budgetary Basis. Continued weakness in the housing sector and escalating oil prices were two of the main factors that resulted in slower growth of the national economy during fiscal year 2007. Growth in real gross domestic product (GDP) finished at 2.5 percent for the fiscal year ended June 30, 2007, down from 3.4 percent for the prior fiscal year. Corporate profits, growth in wages and salaries and consumer expenditures were all lower during fiscal year 2007 than in the prior fiscal year. Economic growth proved erratic, at just 0.4% in the first quarter of 2007 before rebounding to reach 4.0% in the second quarter of 2007. Job growth continued during the fiscal year and the unemployment rate continued to drop throughout the fiscal year. Overall, these somewhat conflicting national economic conditions still positively impacted state revenue growth, as revenues exceeded the budget estimate. Additional revenues were used, in part, to replenish portions of reserve funds and to support an increased demand for governmental goods and services, particularly in the area of health care costs.

General Fund revenues of the Commonwealth exceeded the certified estimate by $649.6 million or 2.4 percent during fiscal year 2007. Final Commonwealth General Fund revenues for the fiscal year totaled $27,449.1 million. Total fiscal year 2007 revenues, net of reserves for tax refunds and including intergovernmental transfers and additional resources, totaled $27,193.7 million. Total expenditures, net of appropriation lapses and including intergovernmental transfers and expenditures from additional sources, were $27,007.9 million. As result of Commonwealth financial operations during the fiscal year, the preliminary unappropriated surplus balance, prior to the statutorily required 25 percent transfer to the Budget Stabilization Reserve Fund, increased to $707.9 million, including the beginning balance from the prior year of operations. Accordingly, 25 percent of this preliminary balance or $176.9 million was transferred to the Budget Stabilization Reserve Fund. The final fiscal year 2007 unappropriated surplus balance was $530.9 million as of June 30, 2007.

Revenues available to the Commonwealth, including intergovernmental transfers and additional sources, increased 5.8 percent. Fiscal year 2007 revenues (all sources) totaled $27,193.7 million, an increase of $1,492.8 million over fiscal year 2006. Intergovernmental transfer proceeds decreased $199 million or 27 percent, primarily due to the continued phase-out of intergovernmental transfers. Funding from additional sources increased $111.8 million or 76 percent, primarily due to increased transfers from other state funds. General Fund revenues grew $1,595 million or 6.2 percent during fiscal year 2007 when measured on a year-over-year basis. Corporate tax receipts were $286.2 million, or 5.6 percent over estimate for the fiscal year. Year-over-year growth in corporate taxes was 5.6 percent during fiscal year 2007 as corporate net income tax collections grew 8.3 percent and gross receipts tax collections grew 12.4 percent but receipts from the capital stock and franchise tax declined 7.5 percent on a year-over-year basis. The decline in capital stock and franchise tax receipts was due to the continued phase-out of this tax. Personal income taxes were $301.6 million over the estimate, a surplus of 3.0 percent versus the year-to-date estimate, while year-over-year growth in personal income tax receipts was 7.7 percent. Sales and use taxes were essentially at estimate as actual receipts were $14.9 million below estimate, a difference of 0.17 percent from the fiscal year estimate. Sales tax collections grew 3.1 percent during fiscal year 2007. A softening in the housing market led to realty transfer tax revenues growing by only 3.4 percent during fiscal year 2007. Non-tax revenues of the Commonwealth grew by 58 percent during the fiscal year, led by increased liquor store profits and earnings on the investment of Commonwealth funds. Reserves for tax refunds in fiscal year 2007 were $1,050 million, an increase of 1.4 percent from the fiscal year 2006 reserves. At the end of fiscal year 2006, approximately $114 million of reserves were available for making tax refunds in the following fiscal year.

Fiscal year 2007 appropriations from Commonwealth revenues, including supplemental appropriations and net of appropriation lapses, totaled $26,298.1 million, an increase of 6.6 percent from fiscal year 2006 expenditures. A total of $105.4 million in appropriations were lapsed in fiscal year 2007, and the fiscal year 2007 budget contained a slightly reduced level of intergovernmental transfers which were utilized to cover a portion of medical assistance costs. Intergovernmental transfers replaced $536.7 million of General Fund medical assistance costs in fiscal year 2007, compared to $735.7 million in fiscal year 2006, a decrease of 27 percent. In addition, approximately $257.7 million in additional funds were appropriated in fiscal year 2007 to fund expenditures normally funded from Commonwealth revenues, an increase from $145.9 million in fiscal year 2006. The ending unappropriated balance was $530.9 million for fiscal year 2007.

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Table 8
Sources, Uses and Changes in Unappropriated Balance
General Fund and Other Funding Sources — Unaudited Budgetary Basis
Commonwealth Revenues Only

(In Millions)

	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Enacted Fiscal Year 2010
Sources:			
Cash revenues	$ 27,928.2	$ 25,529.8	$ 28,069.7
Tax refunds	(1,050.0)	(1,225.0)	(1,255.4)
Additional resources available	142.5	0.0	0.0
Intergovernmental transfer transactions[(a)]	508.6	445.8	583.3
TOTAL SOURCES	$ 27,529.3	$ 24,750.6	$ 27,397.6
Uses:			
General fund appropriations	$ 27,182.2	$ 28,323.8	$ 27,791.4
Expenditures from additional resources	142.5	0.0	0.0
Lapses and other reductions[(b)]	(356.0)	(634.2)	(3,390.3)
Intergovernmental transfer transactions[(a)]	508.6	445.8	583.3
TOTAL USES	$ 27,477.3	$ 28,135.4	$ 24,984.4
OPERATING BALANCE	$ 52.0	$ (3,384.8)	$ 2,413.2
BEGINNING UNAPPROPRIATED BALANCE	530.8	585.3	(2,799.5)
ADJUSTMENT TO UNAPPROPRIATED BALANCE	2.5	…..	…..
TRANSFER (TO)/FROM BUDGET STABILIZATION RESERVE FUND	(0.0)	0.0	755.0
ENDING UNAPPROPRIATED BALANCE	$ 585.3	$ (2,799.5)	$ 368.7

Totals may not add due to rounding.

(a) Only includes funds replacing Commonwealth funds. Fiscal year 2008 includes $175.1 million from a nursing home tax used to augment appropriated funds for long-term care. For fiscal year 2009, this number is $181.7 million and for fiscal year 2010 it is $156.3 million. Additionally, fiscal year 2008 included $197.3 million and fiscal year 2009 included $203.5 million from a tax imposed on managed care organizations. The fiscal year 2010 budget includes $261.2 million from this source.

(b) Includes prior year appropriation lapses from fiscal year 2007 of $142 million, $163 million from fiscal year 2008 and an anticipated $175 million from fiscal year 2009. Includes $1.239 billion in federal funds carried forward from fiscal year 2009 and $2.715 billion in fiscal year 2010.

Fiscal Year 2008 Financial Results

GAAP Basis. At June 30, 2008, the General Fund reported a fund balance of $2,974.1 million, a decrease of $396.8 million from the reported $3,370.9 million fund balance at June 30, 2007. On a net basis, total assets increased by $1,328.0 million to $12,489.5 million. Liabilities increased by $1,724.8 million to $9,515.4 million largely because of an increase in accounts payable ($720 million) and an increase in securities lending obligations ($706.4 million). The change in fund balance for the General Fund of -$396.8 million for fiscal year 2008 compares with a change in the fund balance of $401.3 million for fiscal year 2007 (a negative change of $797.8 million in the change in fund balance from fiscal year 2007 to fiscal year 2008).

General Fund tax revenues increased overall by 2 percent during the fiscal year ended June 30, 2008. Although most of the overall increase is attributable to economic growth, increases/decreases within several specific tax types were larger or smaller than 2 percent. Personal Income Tax (PIT) revenues rose by 6 percent – most of this growth occurred in nonemployer-withheld PIT. This growth can be attributed to strong capital gains reported for calendar year 2007 that caused tax payments for this class of personal income to grow by 13 percent during the current fiscal year. The PIT increase was offset by declines in Sales/Use and Real Estate Tax revenues. Sales/Use Tax revenues decreased by 3 percent primarily as a result of the elimination of the 1.22 percent Supplemental Public Transit Assistance (SPTA) transfer, which was replaced with a 4.4 percent transfer to the Public Transportation Trust Fund (PTTF). The PTTF was created by Act 44 of 2007 ("Act 44") to provide another dedicated funding source for public transportation programs in the Commonwealth. The decline in Real Estate Taxes was attributable to an increase in the percentage rate for transfers from the Realty Transfer Tax in the General Fund to the Keystone Recreation, Park and Conservation Fund, from 2.1 percent in the prior year to 15 percent during fiscal year 2008. Overall, Corporation Tax revenues were flat year-over-year. There was a substantial increase (37 percent) within the Other Tax revenues category. This increase occurred as a result of a change in accounting treatment related to Job Creation Tax Credits. The change in treatment allows utilization of credits to affect the General Fund consistent with accounting treatment for all other types of tax credits. Finally, Cigarette Tax revenues increased by 4 percent due to increased enforcement activities.

Intergovernmental revenues increased by $258 million, net, resulting primarily from health and human services related Federal programs. Total General Fund revenues increased by $630 million (1.45 percent) during the fiscal year ended June 30, 2008.

Total General Fund expenditures increased by 3.04 percent during the fiscal year ended June 30, 2008, by $1.280 billion. Reported expenditures for health and human services expenditures increased by $781 million, caused by a higher aggregate need for medical assistance services, and income or cash grant assistance. Public education expenditures increased by $623 million due primarily to increases in basic education ($166 million), school employee retirement ($77 million), pre-K programs ($60 million), higher education subsidies ($55 million) and several other subsidies to school districts ($265 million). Protection of person and property expenditures increase primarily for corrections related programs ($97 million), Children's Health Insurance Program ($48 million), Volunteer Fire Company grants ($48 million) and other programs ($18 million). Transportation expenditures decreased due to Act 44 of 2007 transferring the spending authority for mass transportation programs from the General Fund to the Public Transportation Trust Fund. Direction and supportive services expenditures increased by $188 million, net, due primarily to changes in reporting payroll expenditures related to retiree healthcare programs. Expenditures for economic development decreased by $82 million due to reduced spending on community/local government opportunity and revitalization programs.

Reported Transfers to the General Fund decreased by $81 million, net, primarily because of 1) a $70.0 million decrease in the State Stores Fund profits transfer, 2) a prior year $17.5 million transfer from the Manufacturing Fund which did not occur in fiscal year 2008, 3) new $9.4 million transfer from the Environmental Stewardship Fund, 4) a prior year $4.4 million transfer from the Public Transportation Assistance Fund which did not occur in fiscal year 2008, 5) a new $3.0 million transfer from the Capital Facilities Fund, and 6) a $1.7 million decrease in the amount transferred from the State Racing Fund. Reported Transfers from the General Fund increased by $66 million mainly because of 1) a $31.4 million increase to debt service funds, 2) total first-year transfers of $13.9 million to Commonwealth Funds representing in-substance repayment of expenditures posted in prior fiscal years for retiree healthcare benefit costs charged via biweekly payroll processing/payment, 3) a new $5.5 million transfer to the Conservation District Fund, 4) a new $12.8 million transfer to the Hazardous Sites Cleanup Fund, and 5) a $2.5 million increase in transfers to the Community College Capital Fund.

Budgetary Basis. The national economic slowdown and a recession in the housing sector adversely impacted growth in the Commonwealth during fiscal year 2008. Declining home sales and home values, a contraction in available credit from woes in the financial markets, slightly higher unemployment and lower personal consumption resulted in less growth in fiscal year 2008 revenues than had been projected in the February 2008. Commonwealth revenues still exceeded the certified estimate for fiscal year 2008 by $167.5 million or 0.6 percent. Preliminary estimates from February 2008 projected a revenue surplus of $427 million during fiscal year 2008. Lower than projected revenues from corporate and personal income taxes were responsible for the lower than projected growth. Final Commonwealth General Fund revenues for the fiscal year totaled $27,928.2 million. Total fiscal year 2008 revenues, net of reserves for tax refunds and including intergovernmental transfers and additional resources totaled $27,502.9 million. Total expenditures, net of appropriation lapses and including intergovernmental transfers and expenditures from additional sources, were $27,450.9 million. As a result of Commonwealth financial operations during fiscal year 2008, the preliminary unappropriated surplus balance, prior to the statutorily required transfer to the Budget Stabilization Reserve Fund, totaled $582.9 million. In response to lower-than-projected growth in Commonwealth revenues, the General Assembly approved and the Governor signed into law, a one-year suspension of the 25 percent transfer of a portion of the unappropriated surplus balance to the Budget Stabilization Reserve Fund for fiscal year 2008.

Revenues available to the Commonwealth, including intergovernmental transfers and additional sources, increased 1.3 percent. Fiscal year 2008 revenues (all sources) totaled $27,502.9 million, an increase of $309.2 million over fiscal year 2007. Intergovernmental transfer proceeds decreased $54.5 million, primarily due to the continued phase-out of intergovernmental transfers. Funding from additional sources decreased $115.2 million or 45 percent, primarily due to decreased transfers from other state funds. General Fund revenues grew $478.8 million or 1.7 percent during fiscal year 2008 when measured on a year-over-year basis. Corporate tax receipts were $13.3 million, or 0.2 percent over estimate for the fiscal year. Year-over-year growth in corporate taxes was also 0.2 percent during fiscal year 2008 as corporate net income tax collections declined 3.0 percent while gross receipts tax collections grew 4.3 percent and receipts from the capital stock and franchise tax grew 2.0 percent on a year-over-year basis. The growth in capital stock and franchise tax receipts occurred despite the continued phase-out of this tax. Personal income taxes were $157.7 million over the estimate, a surplus of 1.5 percent versus the estimate, while year-over year growth in personal income tax receipts was 6.3 percent. Sales and use tax revenues declined in fiscal year 2008 by $94.2 million or 1.1 percent on a year-over-year basis. Sales tax receipts were below estimate by $19.6 million, a difference of 0.2 percent from the fiscal year estimate. Non-tax revenues of the Commonwealth declined by 17 percent during the fiscal year, led by decreased liquor store profits and lower-than-projected earnings on the investment of Commonwealth funds. Reserves for tax refunds in fiscal year 2008 were $1,050 million, an amount equal to the fiscal year 2007 reserves. At the end of fiscal year 2008, approximately $100 million of reserves were available for making tax refunds in the following fiscal year.

Fiscal year 2008 appropriations from Commonwealth revenues, including supplemental appropriations and net of appropriation lapses, totaled $27,450.9 million, an increase of 1.6 percent from fiscal year 2007 expenditures. A total of $356.0 million in appropriations were lapsed in fiscal year 2008, and the fiscal year 2008 budget contained a reduced level of intergovernmental transfers which were utilized to cover a portion of medical assistance costs. Intergovernmental transfers replaced $482.2 million of General Fund medical assistance costs in fiscal year 2008, compared to $536.7 million in fiscal year 2007, a decrease of 10.1 percent. In addition, approximately $142.5 million in additional funds were appropriated in fiscal year 2008 to fund expenditures normally funded from Commonwealth revenues, a decrease from $257.7 million in fiscal year 2007. The ending unappropriated balance was $585.3 million for fiscal year 2008, an increase of 9.8 percent from fiscal year 2007.

Fiscal Year 2009 Financial Results

The following information is based on the Commonwealth's budgetary basis financial data. GAAP basis information is not yet available.

Budgetary Basis. The dramatic and adverse effects of the national economic recession negatively impacted the Commonwealth's economy during fiscal year 2009. The fiscal year 2009 budget was based upon an economic assumption that economic growth would resume in the second half of the fiscal year, reaching nearly 2.0 percent annual growth by June 2009. However, the economy did not rebound but rather the contraction in the national economy during each of the four quarters of fiscal year 2009, combined with rising unemployment rates and the turbulent financial markets, negatively impacted the Commonwealth's revenues and receipts. General Fund revenues of the Commonwealth were below the certified estimate by $3,254.6 million or 11.3 percent during fiscal year 2009. Final Commonwealth General Fund revenues for the fiscal year totaled $25,529.8 million. Total fiscal year 2009 revenues, net of reserves for tax refunds and including intergovernmental transfers and additional resources, totaled $24,750.6 million. Total expenditures, net of appropriation lapses and including intergovernmental transfers and expenditures from additional sources, were $28,135.4 million. As result of Commonwealth financial operations during the fiscal year, the preliminary unappropriated surplus balance decreased to -$2,799.5 million, including the beginning balance from the prior year of operations.

Revenues available to the Commonwealth, net of reserves for tax refunds and including intergovernmental transfers and additional sources, decreased 10.1 percent. Fiscal year 2009 revenues (all sources) totaled $24,750.6 million, a decrease of $2,781.7 million over fiscal year 2008. Intergovernmental transfer proceeds decreased $65.8 million or 12.9 percent, primarily due to the continued phase-out of intergovernmental transfers. Funding from additional sources decreased $142.5 million or 100 percent, primarily due to the elimination of transfers from other state funds. General Fund revenues declined $2,398.3 million or 8.6 percent during fiscal year 2009 when measured on a year-over-year basis. Corporate tax receipts were $613.9 million, or 11.3 percent below estimate for the fiscal year. Year-over-year growth in corporate taxes was -11.4 percent during fiscal year 2009 as corporate net income tax collections declined 18.1 percent and capital stock and franchise tax receipts declined 22.8 percent while collections from the gross receipts tax grew 2.1 percent on a year-over-year basis. A portion of the decline in capital stock and franchise tax receipts was due to the continued phase-out of this tax. Personal income taxes were $1,290.7 million below the estimate, a shortfall of 11.2 percent versus the estimate, while year-over-year growth in personal income tax receipts was -6.5 percent. Personal income tax collection attributable to withholding declined 0.2 percent during fiscal year 2009 while tax collections from the non-withholding portion of the personal income tax declined 22.5 percent on a year-over-year basis. Sales and use taxes receipts were also below the fiscal year 2009 estimate by $595.3 million, a difference of -6.8 percent from the fiscal year estimate. Sales tax collections declined 4.3 percent during fiscal year 2009 as motor vehicle sales tax collections declined 12.8 percent and non-motor vehicle sales tax receipts declined 3.0 percent during fiscal year 2009. Continued weakness in the housing market led to realty transfer tax revenues declining by 31.4 percent during fiscal year 2009. Non-tax revenues of the Commonwealth were 68.3 percent below the fiscal year 2009 estimate, led by realized losses on the investment of Commonwealth funds. Reserves for tax refunds in fiscal year 2009 were $1,225 million, an increase of 16.7 percent from the fiscal year 2008 reserves.

In response to declining revenue collections in fiscal year 2009, the Commonwealth implemented a number of steps to reduce expenditures during fiscal year 2009. First, the Commonwealth implemented three rounds of budget cuts or “freezes,” which reduced the ability of agencies to spend funds appropriated during fiscal year 2009. Total budget cuts of $505 million, or approximately 4.25 percent, were implemented during fiscal year 2009 in agencies under the Governor’s jurisdiction. Additionally, the Commonwealth implemented a general hiring freeze to reduce costs, it restricted out-of-state travel, it banned the purchase of new and replacement vehicles and reduced the size of the state fleet by 1,000 vehicles. Fiscal year 2009 and 2010 salaries for management and non-union employees were frozen at current levels. As result, a total of $634.2 million in appropriations were lapsed in fiscal year 2009.

Fiscal year 2009 appropriations from Commonwealth revenues, net of appropriation lapses, totaled $28,323.8 million, an increase of 4.2 percent from fiscal year 2008 expenditures and the fiscal year 2009 budget contained a slightly reduced level of intergovernmental transfers which were utilized to cover a portion of medical assistance costs. Intergovernmental transfers replaced $445.8 million of General Fund medical assistance costs in fiscal year 2009, compared to $508.6 million in fiscal year 2008, a decrease of 12.9 percent. The ending unappropriated balance was -$2,799.5 million for fiscal year 2009, which was carried-forward to fiscal year 2010.

The Commonwealth has undertaken a number of management and productivity improvement efforts since 2003 that have resulted in a recurring annual savings of an estimated $1.75 billion in fiscal year 2009. Examples of these improvements includes saving $242 million annually from complement reductions, $643 million annually from contract renegotiations and $489 million from operational and process improvements. These recurring savings have assisted the Commonwealth in its efforts to mitigate the impact of the national recession.

Fiscal Year 2010 Budget

On August 5, 2009 the Governor signed into law, Act 1A, which provides $11 billion of appropriations towards the operation of critical public health and safety services and to fund general government operations for the Commonwealth. In signing Act 1A, the Governor also line-item vetoed nearly $13 billion of appropriations for fiscal year 2010. The resulting legislation has been commonly referred to as a “bridge budget,” which provides for the full fiscal year 2010 funding for: 1) essential general government operations, including the payment of wages and salaries to most Commonwealth employees; 2) the payment of general obligation debt service; 3) the payment of appropriation and/or lease-supported debt of the Commonwealth; 4) the incarceration of convicted offenders within state correctional institutions; 5) the provision of state police services, and; 6) certain mandated costs for the provision of health and welfare programs. Funding for all other programs and services normally provided by the General Fund was vetoed by the Governor. Programs for which fiscal year 2010 funding was line-item vetoed include, but are not limited to, basic education funding and other such funding to Pennsylvania school districts, grants and aid payments to Commonwealth counties and other similar municipalities, economic development programs, certain health and welfare programs, public recreation and conservation programs and environmental protection efforts. The enacted fiscal year 2010 "bridge budget," or Act 1A, provides appropriations totaling $10,967.9 million of Commonwealth funds against estimated current law revenues, prior to reserves for tax refunds, of $25,560.6 million.

On October 9, 2009, the Governor signed into law the enacted fiscal year 2010 budget which provides appropriations and executive authorizations totaling $24,294.2 million, which was net of expenditures offset with federal funds and did not include appropriations for certain non-preferred institutions such as the state-related universities and museums. Appropriations for these institutions approved by the General Assembly and signed into law by the Governor on December 17, 2009. Appropriations, net of approximately $8 million in line-item vetoes, totaled $690.2 million in fiscal year 2010. Further, on January 8, 2010, the Governor signed into law a bill expanding gaming in the Commonwealth. Act 1 of 2010 ("Act 1") authorizes certain table games at Pennsylvania casinos and is estimated to generate an additional $256 million in General Fund revenues during fiscal year 2010. Additional fiscal year 2010 General Fund revenues generated from Act 1 would be derived mainly from upfront license fees. Act 1 imposes a 14 percent tax rate on most table game revenue and directs such revenues to the General Fund until such time as the balance in the Budget Stabilization Reserve Fund reaches $750.0 million. Annual recurring revenue to the General Fund from table games is currently estimated to be between $80 and $90 million. A total of $27,397.6 million in revenues, net of tax refunds and including intergovernmental transfers is estimated for fiscal year 2010. The $2,413.2 million difference between the estimated revenues and expenditures will be used to fund the -$2,799.5 million beginning balance deficit. In addition, the $755 million balance in the Budget Stabilization Reserve Fund will be transferred to the General Fund. The preliminary fiscal year ending unappropriated balance was estimated to be $368.7 million.

Given the current state of the national economy, the fiscal year 2010 base revenue estimate is premised on the assumption that the Commonwealth will experience zero growth (0.0 percent) during fiscal year 2010. The enacted budget provides an estimated $808.2 million in recurring revenues from various sources. Included in the recurring revenues are the following revenue enhancements: $250 million from the legalization and taxation of table games at Pennsylvania casinos; $374 million from the suspension of the phase-out of the capital stock and franchise tax; $171 million from the redirection from a dedicated use to the General Fund, of an existing $0.25 per pack tax on cigarettes; $100 million from enactment of an additional $0.25 per pack cigarette tax; $38.3 million from the suspension of certain tax credits; $44 million in revenue from the re-direction of revenues formerly dedicated to the Autocat fund; a re-direction of funds formerly dedicated to the Race Horse Development Fund; and a new $1.60 tax on a pack of small cigars. The enacted budget for fiscal year 2010 also includes $2,356.0 million in non-recurring revenues including; $755 million from the Budget Stabilization Fund; $708 million from the Health Care Provider Retention Account; $100 million from the MCare Fund; $159 million for the Personal Income Tax; $203 million from the Oil and Gas Lease Fund; $150 million from the Tobacco Endowment Account; $190 million from a tax amnesty program; $80-90 million from a tax on table games at Pennsylvania casinos, which will begin to accrue in fiscal year 2011; $25 million from an increased transfer from the State Stores Fund; $18.8 million from the Keystone fund; $17.7 million from the suspension of the tobacco cessation program in the Tobacco Fund; and other smaller transfers from various funds. The fiscal year 2010 budget also utilizes $3,390.3 million in available federal fiscal relief funds to offset state appropriations.

However, the dramatic and continued adverse effects of the national economic recession continue to adversely impact Commonwealth revenues. Through December 2009, General Fund revenues are 2 percent below estimate or $254.2.0 million below the certified official estimate. Corporation tax receipts are essentially on estimate through December, while receipts from the Sales tax and the Personal Income tax are 4.4 percent and 2.5 percent below the official estimate. Total fiscal year 2010 revenues of the Commonwealth, prior to reserves for refunds, are now expected to be $450 million or 1.7 percent below the certified official estimate for fiscal year 2010. Fiscal year 2010 receipts from corporate tax receipts are now estimated to rise slightly above the official estimate for 2010, by 0.6 percent and corporate receipts are now expected to grow 5.9 percent on a year-over-year basis. Personal income tax receipts in fiscal year 2010 are now expected to be 2.5 percent lower than the official estimate and personal income tax collections are expected to decline 1.7 percent from the prior year on a year-over-year basis. Sales and use tax receipts are now projected to be 3.1 percent lower than the original estimate for fiscal year 2010 and virtually no change, 0.03 percent decline, is forecast on a year-over-year basis.

Education funding is expanded with the enacted fiscal year 2010 budget by an additional $300 million provided through the Basic Education subsidy. The fiscal year 2010 budget represents a 1.8 percent ($523.9 million) decrease over the fiscal year 2009 budget. The fiscal year 2010 budget reduce or eliminates funding for programs in nearly every Commonwealth agency. The budget reduces funding for over 300 programs and eliminates funding for over 100 programs, lowering General Fund spending by nearly $1,900.0 million. Nearly 3,000 Commonwealth positions are to be eliminated in fiscal year 2010, bringing the total reduction in the Commonwealth's workforce to 4,767 positions since 2003.

In response to lower than estimated tax receipts through December 2009 and a projected $450 million shortfall in fiscal year 2010 revenues, the Governor has directed budget cuts or "freezes" which reduce the ability of agencies to spend funds appropriated during fiscal year 2010. Total budget cuts of $170 million will be implemented during fiscal year 2010 in agencies under the Governor's jurisdiction. An additional $50 million in prior year appropriations or "lapses" will be available to address a portion of the projected revenue shortfall. Finally, $230 million would be drawn from the projected $368.7 year-end unappropriated surplus. The achievement of budgeted results may be adversely affected by a number of trends or events, including developments in the national and state economy.

Motor License Fund

The Constitution requires all proceeds of motor fuels taxes, vehicle registration fees, license taxes, operators' license fees and other excise taxes imposed on products used in motor transportation to be used exclusively for construction, reconstruction, maintenance and repair of and safety on highways and bridges and for debt service on obligations incurred for these purposes. The Motor License Fund is the fund through which most such revenues are accounted for and expended. Portions of certain taxes whose receipts are deposited into the Motor License Fund are legislatively restricted to specific transportation programs. These receipts are accounted for in restricted accounts in the Motor License Fund and are not included in the budgetary basis presentations or discussions on the Motor License Fund. The Motor License Fund budgetary basis includes only unrestricted revenue available for annual appropriation for highway and bridge purposes. The GAAP basis presentations include restricted account revenues and expenditures.

Financial Results for Recent Fiscal Periods (GAAP Basis)

The fund balance at June 30, 2008, was $1,566.5 million, an $137.7 million (9.7 percent) decrease from the June 30, 2007 fund balance. Over the five fiscal years of 2004 through 2008, revenues and other sources have averaged an annual 4.7 percent increase. Expenditures and other uses during the period from fiscal years 2004 through 2008 have averaged a 5.1 percent annual increase.

Overall, total revenues increased by $280 million during the fiscal year ended June 30, 2008; this represents a 6 percent increase over the prior fiscal year. The most significant factor was $450 million in first-year intergovernmental revenues from the Pennsylvania Turnpike Commission (PTC), a discretely presented component unit of the Commonwealth. These PTC payments were made based on Act 44 of 2007 and the resulting agreement between the Commonwealth and the PTC for the proposed leasing of Interstate 80 to the PTC, pending approval of the Federal government. Also, a new appropriation during this year, the Red Light Photo Enforcement Program, generated additional revenues of $3 million. Most of the decrease in other revenues was caused by a $130 million decrease in investment income due to lower securities valuation as of June 30, 2008, and lower tax revenues ($48 million) driven by decreased gasoline and diesel fuel consumption during the fiscal year.

Overall, total expenditures decreased by $27 million, or less than one percent, during the fiscal year. This decrease was primarily a result of the $20 million reduction in appropriations and expenditures for protection of persons and property. This reduction occurred because the level of funding provided in the prior year by the Motor License Fund to the General Fund (State Police) for highway patrols and other public safety functions was not renewed at the prior year level. The increase in cash and investments, net of securities lending obligations, was a direct result of the net revenue increases explained above. Other assets decreased due to lower receivables from the Federal government as the billing cycle for the Federal Highway Administration allowed for higher collections, causing less amounts receivable ($18 million) at fiscal year end. Additionally, liquid fuels taxes receivable decreased by $13 million as a result of the overall decrease in gasoline and diesel fuel consumption during the fiscal year. Accounts payable decreased by $50 million, primarily as a result of overall decreases in expenditures. Other liabilities increased by $29 million due in part to an $18 million liability to other state governments for commercial drivers license reimbursements according to the Apportionment Renewal Program. Also, a combined $8 million liability was due from the Motor License Fund to the General Fund (Department of Revenue) and the Purchasing Fund for vehicle sales tax collections and purchasing card obligations, respectively, both resulting from procedural changes. Net transfers to other Funds decreased by $29 million due primarily to a $40 million transfer to the Pennsylvania Infrastructure Bank Fund to provide additional funding for the Municipal Loan Program; a $7.9 million transfer from the General Fund for contributions towards retiree healthcare benefits; and a $3.2 million transfer from the Public Transportation Trust Fund for interest on amounts borrowed and repaid during the fiscal year ended June 30, 2008. Table 9 sets forth a condensed summary of revenues and expenditures (presented on a GAAP basis) for the Motor License Fund for the fiscal years 2004 through 2008.

Table 9
Results of Operations–Motor License Fund
GAAP Basis–Unaudited

(In Thousands)

	Fiscal Year Ended June 30				
	2004	**2005**	**2006**	**2007**	**2008**
Fund Balance — Beginning of Period	$ 893,133	$ 1,079,617	$ 1,276,525	$ 1,549,078	$ 1,418,781
Revenues:					
Taxes	$ 1,742,332	$ 1,844,670	$ 2,033,227	$ 2,072,442	$ 2,024,045
Licenses and fees	866,552	889,984	899,690	878,679	877,141
Intergovernmental	1,323,005	1,213,487	1,413,434	1,448,007	1,913,422
Other revenues	176,910	171,839	185,611	250,031	114,549
Other Financing Sources:					
Operating transfers in	-	-	-	-	11,204
Other additions	-	562	-	154	-
TOTAL REVENUES AND OTHER SOURCES	$ 4,108,799	$ 4,120,542	$ 4,531,962	$ 4,649,313	$ 4,940,361
Expenditures:					
Direction and supportive services	$ 49,693	$ 50,338	$ 51,738	$ 66,572	$ 66,993
Protection of persons and property	496,105	509,999	553,679	667,318	647,014
Public education	1,023	1,058	1,024	991	867
Recreation and cultural enrichment	4,199	3,437	-	408	1,337
Transportation	1,641,755	1,826,539	1,679,517	2,326,944	2,198,115
Capital outlay	1,668,261	1,472,434	1,924,821	1,672,026	1,793,459
Other Uses:					
Operating transfers out	61,279	59,829	48,630	45,351	84,837
TOTAL EXPENDITURES AND OTHER USES	$ 3,922,315	$ 3,923,634	$ 4,259,409	$ 4,779,610	$ 4,792,622
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES	186,484	196,908	272,553	(130,297)	147,739
Fund Balance — End of Period	$ 1,079,617	$ 1,276,525	$ 1,549,078	$ 1,418,781	$ 1,566,520
Components of Fund Balance					
Reserved for encumbrances	$ 591,598	$ 601,809	$ 464,511	$ 596,304	$ 670,338
Reserved for advances and other	220,662	110,000	1,635	2,014	5,242
Unreserved - designated - highways	209,647	218,885	203,118	235,730	689,288
Unreserved - undesignated	57,710	345,831	879,814	584,733	201,652
TOTAL FUND BALANCE	$ 1,079,617	$ 1,276,525	$ 1,549,078	$ 1,418,781	$ 1,566,520

Source: Compiled from Office of the Budget, Comprehensive Annual Financial Report for fiscal years ended June 30, 2004 through 2008.

The following budgetary basis information is derived from the Commonwealth's unaudited budgetary basis financial statements.

Fiscal Year 2007 Financial Results

Budgetary Basis. Motor License Fund revenues totaled $2,290.8 million during fiscal year 2007, an increase of 1.1 percent over fiscal year 2006 receipts. Receipts from liquid fuels taxes increased by 2.4 percent while license and fee revenue declined slightly by 0.9 percent. Other revenue receipts grew by 2.0 percent during fiscal year 2007. The fiscal year 2007 Motor License Fund appropriations and executive authorizations totaled $2,565.4 million, an increase of 9.6 percent from fiscal year 2006. The increased expenditure levels during fiscal year 2007 represented a planned drawdown of a portion of the $283.7 million unappropriated surplus from prior years. The Motor License Fund concluded fiscal year 2007 with an unappropriated surplus of $96.6 million, a net decrease of 66 percent.

Fiscal Year 2008 Financial Results

Budgetary Basis. Fiscal year 2008 Motor License Fund revenues totaled $2,667.9 million or an increase of $377.1 million (16.5 percent) from prior year levels. Receipts from liquid fuels taxes were negatively impacted by rising oil prices which reduced consumption. During fiscal year 2008, liquid fuels tax receipts declined 1.5 percent from prior year levels. License and fee revenue grew minimally in fiscal year 2008, up 0.2 percent from fiscal year 2007 levels, while other revenue receipts grew by 238.3 percent during fiscal year 2008, driven largely by the additional revenues generated by Act 44.

Motor License Fund revenue growth during fiscal year 2008 was attributable to statutory revisions enacted as part of Act 44, which was signed into law on July 18, 2007. Act 44 provided the largest single-year increase in Commonwealth funding for transportation. Through a "public-public" partnership between the Pennsylvania Department of Transportation and the Pennsylvania Turnpike Commission, the Commonwealth sought to invest nearly $1 billion annually in transportation infrastructure. Act 44 was designed to provide an average of $950 million in new funding per year for highways, bridges and transit over the next ten years. In fiscal year 2008, $750 million in additional funding was invested in the state's transportation system with $450 million going to highway and bridge projects and $300 million to mass transit projects. By fiscal year 2010, $900 million was expected to be invested annually with $500 million for highway and bridge projects and $400 million for mass transit. After fiscal year 2010, investments were expected to rise 2.5 percent annually. Initially, funding for the additional investments would come from up to $5 billion in bonds to be issued by the Pennsylvania Turnpike Commission. The debt will be repaid over time with revenue from a 25 percent toll increase on the Pennsylvania Turnpike beginning in 2009 and, if available, from new tolls to be collected on Interstate 80. In October 2007, the Turnpike Commission and the Department of Transportation signed a 50 year lease agreement in which the Turnpike Commission agreed to provide the aforementioned payments to the Department of Transportation in exchange for authority to toll and operate Interstate 80. A joint application to the Federal Highway Administration seeking federal authorization to toll and improve Interstate 80 was submitted on October 13, 2007. In September 2008, the Federal Highway Administration notified the Commonwealth that it was required to reject the state's application to toll Interstate 80 as the application did not meet the technical requirements of the federal law. The Pennsylvania Department of Transportation and the Pennsylvania Turnpike Commission are reviewing options to possibly submit a revised application to the federal government. In the event that the federal government maintains its rejection of the proposed tolling of Interstate 80, lease payments from the Turnpike Commission to the Commonwealth would likely decline by an estimated $450 million annually beginning in fiscal year 2011. The possible reduction in lease payments would lead to a decrease of $200 million in annual expenditures for highway and bridge projects and a $250 million decrease in expenditures for mass transit.

Additionally, the funding mechanisms for mass transit were legislatively changed with the enactment of Act 44. Mass transit funding was shifted from the General Fund to a combination of sources including a new Public Transportation Trust Fund. The Public Transportation Trust Fund, established by Act 44, was created to provide a long-term, predictable and growing source of revenues for public transportation systems. A new, dedicated revenue stream consisting of 4.4 percent of the Pennsylvania Sales and Use Tax is earmarked for mass transit systems. The Public Transportation Trust Fund also receives revenues from the Public Transportation Assistance Fund, the Lottery Fund, and, subject to Federal approval, lease payments from the Pennsylvania Turnpike Commission relating to the proposed lease of Interstate 80. This funding supports mass transit programs statewide, providing financial assistance for operating costs, capital costs, and certain administrative costs for the Department of Transportation. Dedicated revenue streams to the Public Transportation Trust Fund and revenues generated through Act 44 were estimated to generate an increase of $300 million annually for local mass transit systems.

Fiscal year 2008 Motor License Fund appropriations and executive authorizations totaled $2,751.3 million, an increase of $185.9 million, an increase of 7.2 percent over fiscal year 2007 expenditures. The increased expenditure levels reflect additional funding which was made available from Act 44. The Motor License Fund concluded fiscal year 2008 with an unappropriated surplus of $110.7 million, a net increase of 14.6 percent.

Fiscal Year 2009 Financial Results

The following information is based on the Commonwealth's budgetary basis financial data. GAAP basis information is not yet available.

Budgetary Basis. Commonwealth revenues to the Motor License Fund totaled $2,556.7 million, a decrease of 4.2 percent over actual fiscal year 2008 revenues. Receipts from liquid fuels taxes decreased by 5.9 percent while license and fee revenue increased by 1.4 percent. Other revenue receipts declined by 8.9 percent during fiscal year 2009, due primarily to the realization of losses associated with Motor License Fund investments. The fiscal year 2009 Motor License Fund appropriations and executive authorizations totaled $2,725.1 million, a decrease of 0.9 percent from fiscal year 2008. The slightly decreased expenditure levels during fiscal year 2009 were the net result from the combination of increased funding made available from Act 44 and a decrease in non Act 44-related spending levels (which resulted in higher levels of fiscal year 2009 appropriation lapses). The Motor License Fund concluded fiscal year 2009 with an unappropriated surplus of $57.7 million, a net decrease of 47.9 percent.

Fiscal Year 2010 Budget

The enacted fiscal year 2010 budget for the Motor License Fund estimates revenues of $2,636.1 million, an increase of 3.1 percent over fiscal year 2009 receipts. The enacted fiscal year 2010 Motor License Fund budget appropriates and authorizes $2,683.9 million, a decrease of 1.5 percent from fiscal year 2009 expenditures. The enacted fiscal year 2010 budget anticipates a partial draw down, totaling $49.3 million, of the fiscal year 2009 unappropriated balance. The anticipated unappropriated fiscal 2010 year-end balance is estimated to be $9.9 million.

The achievement of the budgeted results may be adversely affected by a number of trends or events, including developments in the national and state economy.

State Lottery Fund

The Commonwealth operates a statewide lottery program that consists of various lottery games using computer sales terminals located throughout the state, and instant games using preprinted tickets. The net proceeds of all lottery game sales, less sales commissions and directly paid prizes, are deposited into the State Lottery Fund.

State Lottery Fund receipts support programs to financially assist elderly and handicapped individuals, primarily through property tax and rent rebate assistance and a pharmaceutical assistance program to recipients who meet specified income limits, and the provision of free mass transit rides during off-peak hours. Certain administrative costs and the payment to the General Fund of the personal income tax due on lottery prizes, which taxes and costs were previously paid from the State Lottery Fund, are now being paid by the General Fund, beginning in fiscal year 2000.

Financial Results for Recent Fiscal Periods (GAAP Basis)

The total net assets of the State Lottery Fund at June 30, 2008, was $135.8 million, a $212.5 million decrease from the June 30, 2007 fund balance, which represents a 61.0 percent decrease. Over the five fiscal years of 2004 through 2008, the total net assets of the State Lottery Fund have decline by an average annual rate of 3.8 percent. Over this same period, revenues have averaged an annual 7.9 percent increase while expenditures and other uses during the period from fiscal years 2004 through 2008 have averaged a 9.8 percent annual increase.

During the fiscal year ended June 30, 2008, the Lottery Fund experienced a one percent year-over-year increase in overall sales ($25 million) that was primarily attributable to increased Powerball/Powerplay sales of $30 million, the result of a large jackpot that was won in August 2007. The increase was offset by declines in other online sales, primarily the Match 6 game. The decrease in cash and investments of $118 million was primarily the result of increased transfers to other Funds. This is described in the following paragraph.

During fiscal year 2008, transfers to other Funds increased by $154 million. This was a result of a $74.4 million increase in Lottery Fund resources needed to support the PACE Program (pharmaceutical benefits for the elderly) Fund due to increases in utilization and number of enrollees. Also, as a result of Act 44 of 2007, the Public Transportation Trust Fund (PTTF) was established to provide additional funding for public transportation in the Commonwealth. A portion of PTTF funding was provided by the Lottery Fund to finance expenditures associated with the Shared Ride and Free Transit programs for older Pennsylvanians. During fiscal year 2008, $80 million was transferred to PTTF. The funding was ultimately disbursed as grants to public transit agencies.

During fiscal year 2008, cost of sales and services increased by $38 million. This is due in part to the change in the source of funding for the Department of Aging's General Government Operations and Family Caregiver Program appropriations from the General Fund to the Lottery Fund. The increase was also attributable to the expansion of the Property Tax Rent Rebate (PTRR) program, administered by the Department of Revenue. The program was significantly expanded by Act 1 of Special Session 1 of 2006. The Act expanded both the population of citizens who are eligible for the rebate and the dollar amount of the rebate.

Increases in other revenues and expenditures related to the PennCARE program, which provides home long-term care services to the elderly in an effort to delay or avoid institutionalization. The Title III appropriations comprise the Federal portion of this program. Because a relatively large percentage of residents in the Commonwealth are elderly, there is an increased need for these services. Table 10, on the following page, sets forth a condensed summary of revenues and expenditures (presented on a GAAP basis) for the State Lottery Fund for fiscal years 2004 through 2008.

The following budgetary basis information is derived from the Commonwealth's unaudited budgetary basis financial statements.

Fiscal Year 2007 Financial Results

Budgetary Basis. Fiscal year 2007 net revenues from lottery sources, including instant ticket sales and the state's participation in the multi-state Powerball game, increased by 2.7 percent. Total net revenues received by the Lottery Fund during fiscal year 2007 were $1,498.7 million, while total appropriations were $1,443.1 million. Additionally, fiscal year 2007 expenditures included a transfer of approximately $248.8 million in long-term care costs from the Commonwealth's General Fund to the State Lottery Fund. The fiscal year-end unappropriated balance and reserve was $476.5 million (including $100 million of reserves), an increase of 8.5 percent.

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Table 10
Results of Operations–State Lottery Fund
GAAP Basis–Unaudited
(In Thousands)

	Fiscal Year Ended June 30				
	2004	**2005**	**2006**	**2007**	**2008**
Net Assets -					
Beginning of Period	$ 142,372	$ 158,426	$ 291,416	$ 357,696	$ 348,278
Revenues:					
Lottery revenues	2,350,892	2,645,713	3,046,854	3,076,572	3,100,596
Investment income	13,127	17,282	25,360	39,957	1,461
Other revenues	73,681	68,412	78,331	78,576	101,316
Other Financing Sources:					
Operating transfers in	-	-	-	100,000	100,186
TOTAL REVENUES AND OTHER SOURCES	$ 2,437,700	$ 2,731,407	$ 3,150,545	$ 3,295,105	$ 3,303,559
Expenditures:					
Operating expenses	$ 2,051,646	$ 2,298,417	$ 2,704,265	$ 3,100,518	$ 3,157,593
Other expenses	-	-	-	5	-
Other Uses:					
Operating transfers out	370,000	300,000	380,000	204,000	358,420
TOTAL EXPENDITURES AND OTHER USES	$ 2,421,646	$ 2,598,417	$ 3,084,265	$ 3,304,523	$ 3,516,013
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES	16,054	132,990	66,280	(9,418)	(212,454)
Net Assets - End of Period	$ 158,426	$ 291,416	$ 357,696	$ 348,278	$ 135,824
Components of Net Assets					
Invested in capital assets, net of debt	$ 83	$ 87	$ 31,771	$ 7,442	$ 11,473
Restricted for elderly programs	158,343	291,329	325,925	340,836	124,351
TOTAL NET ASSETS	$ 158,426	$ 291,416	$ 357,696	$ 348,278	$ 135,824

Source: Compiled from Office of the Budget, Comprehensive Annual Financial Report for fiscal years ended June 30, 2004 through 2008.

Fiscal Year 2008 Financial Results

Budgetary Basis. Fiscal year 2008 net revenues from lottery sources, including instant ticket sales and the state's participation in the multi-state Powerball game, increased by $19.7 million or 1.3 percent. Total funds available, including prior year lapses, were $2,136.4 million during fiscal year 2008. Appropriations and executive authorizations totaled $1,685.4 million, which represented a decrease of $6.5 million over fiscal year 2007. The existing Property Tax and Rent Rebate program was expanded to include an additional 422,000 senior citizens and appropriations for this program rose from $120.4 million in fiscal year 2007 to $244.9 million in fiscal year 2008. The fiscal year 2008 budget also continued the expansion of the Commonwealth's prescription drug coverage program to cover an additional 120,000 seniors. Additionally, the enacted fiscal year 2008 budget included a transfer of approximately $248.8 million in long-term care costs from the Commonwealth's General Fund to the State Lottery Fund. The fiscal year-end balance and reserve totaled $451.0 million, (including $100 million of reserves), a decrease of 5.4 percent.

Fiscal Year 2009 Financial Results

Budgetary Basis. Fiscal year 2009 net revenues from lottery sources, including instant ticket sales and the state's participation in the multi-state Powerball game, decreased by 12.8 percent. Total funds available, including prior year lapses and net revenues received by the Lottery Fund during fiscal year 2009 were $1,862.0 million, while total appropriations, net of current year lapses were $1,748.8 million. Additionally, fiscal year 2009 expenditures included a transfer of approximately $248.8 million in long-term care costs from the Commonwealth's General Fund to the State Lottery Fund. The fiscal year-end unappropriated balance and reserve was $113.2 million, a decrease of 75 percent.

Fiscal Year 2010 Budget

The enacted fiscal year 2010 budget anticipates a 22.4 percent increase in revenues from all lottery sources, including instant ticket sales and the state's participation in the multi-state Powerball game. Revenues of the State Lottery fund are estimated to be $1,766.7 million in fiscal year 2010, an increase of $300 million from fiscal year 2009 estimates. A portion of the increased revenues are attributable to a $176.7 million transfer from the Gaming Fund to support enhance Property Tax Rent Rebate program activities as well as enactment during 2008 of revisions to the statutory profit requirement which dedicated a fixed percentage of gross ticket sales to certain programs. By reducing the profit requirement and increasing the payout, ticket sales are expected to increase. Additionally, instant games sales have been added to more venues during fiscal year 2009. Appropriations totaling $1,640.4 million are recommended, which represents a decrease of $108.4 million or 6.2 percent from fiscal year 2009. As part of the fiscal year 2010 budget, less funds are required to support a constant level of services for the pharmaceutical assistance program due to a planned implementation of a new pharmacy reimbursement system. Additionally, the fiscal year 2010 budget contains a decrease in State Lottery Fund expenditures for long-term care as state funds from other sources are being provided to support such costs. The fiscal year-end balance is projected to total $126.3 million (including a re-instatement of at least $100 million of reserves), an increase of 11.6 percent.

Trend projections for fiscal years beyond fiscal year 2010 show estimated program and administrative costs above estimated net revenues, as the forecasted rate of increase in program expenditures, primarily the pharmaceutical assistance program, is expected to outpace revenues. The estimated expenditures in excess of estimated revenues will be funded from a further draw-down of available reserves and balances in the State Lottery Fund. Based upon current projections, higher revenues and/or lower expenditures will be required for the State Lottery Fund to balance operations within a fiscal year.

The achievement of the budgeted results may be adversely affected by a number of trends or events, including developments in the national and state economy.

COMMONWEALTH REVENUES AND EXPENDITURES

Recent Receipts and Forecasts

Table 11, on the following, page presents the Commonwealth revenue receipts, including net revenues accrued but not deposited, on a budgetary basis, for the major operating funds of the Commonwealth as actually received for fiscal years 2004 through 2009 and as enacted for the fiscal year 2010 budget.

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Table 11
Commonwealth Revenues [(a)]
General Fund, Motor License Fund and State Lottery Fund - Unaudited
Fiscal Year 2004 – Fiscal Year 2009 and Fiscal Year 2010 Budget
(In Millions)

	Fiscal Year Ended June 30						
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**Budget 2010**
General Fund							
Tax Revenues:							
Sales and use	$ 7,728.5	$ 8,000.0	$ 8,334.2	$ 8,590.8	$ 8,496.6	$ 8,135.5	$ 8,391.3
Personal income	7,733.8	8,746.8	9,524.1	10,261.6	10,907.7	10,198.7	10,277.0
Corporate (b)	2,661.7	2,947.3	3,382.8	3,492.4	3,437.6	2,767.6	2,842.6
Public utility (c)	1,062.7	1,167.1	1,191.2	1,340.8	1,393.6	1,418.7	1,525.6
Inheritance	747.6	716.1	745.2	756.6	828.6	772.2	772.2
Financial and insurance (d)	608.3	619.6	595.0	626.1	610.1	630.0	706.2
Cigarette	856.4	784.4	792.1	778.6	784.1	754.2	920.4
Realty transfer	400.6	472.5	552.5	571.0	429.5	294.5	272.1
Alcoholic beverages (e)	221.4	237.4	249.2	264.7	277.4	292.5	305.1
Other	25.0	21.3	3.7	1.4	128.0	30.8	23.7
TOTAL TAX REVENUES	$ 22,046.0	$ 23,712.5	$ 25,370.0	$ 26,684.0	$ 27,293.2	$ 25,294.7	$ 26,036.2
Non-Tax Revenues:							
Liquor store profits	$ 50.0	$ 54.9	$ 80.0	$ 150.0	$ 80.0	$ 125.0	$ 105.0
Licenses, fees and miscellaneous	696.9	509.1	368.6	573.6	506.3	90.2	2,408.0
Fines, penalties and interest	35.1	32.0	35.5	41.7	48.6	20.1	19.5
TOTAL NON-TAX REVENUES	$ 782.0	$ 596.0	$ 484.1	$ 765.3	$ 634.9	$ 235.3	$ 2,532.5
TOTAL GENERAL FUND	$ 22,828.0	$ 24,308.5	$ 25,854.1	$ 27,449.3	$ 27,928.1	$ 25,530.0	$ 28,568.7
Motor License Fund							
Tax Revenues:							
Liquid fuels	$ 587.1	$ 588.4	$ 581.8	$ 589.2	$ 591.7	$ 520.5	$ 565.3
Fuels use	155.0	157.4	162.4	162.8	157.1	149.6	150.5
Oil company franchise	342.4	381.3	445.2	462.8	447.7	452.8	442.6
Motorbus & alt fuels	28.6	32.7	36.6	40.6	40.0	40.3	40.4
TOTAL TAX REVENUES	$ 1,113.1	$ 1,159.8	$ 1,226.0	$ 1,255.4	$ 1,236.5	$ 1,163.2	$ 1,198.8
Non-Tax Revenues:							
Licenses and fees	$ 843.2	$ 876.9	$ 877.8	$ 870.0	$ 872.1	$ 883.9	$ 854.4
Other and miscellaneous	129.4	120.1	162.0	165.4	559.4	509.7	582.9
TOTAL NON-TAX REVENUES	$ 972.6	$ 997.0	$ 1,039.8	$ 1,035.4	$ 1,431.5	$ 1,393.6	$ 1,437.3
TOTAL MOTOR LICENSE FUND	$ 2,085.7	$ 2,156.8	$ 2,265.8	$ 2,290.8	$ 2,668.0	$ 2,556.8	$ 2,636.1
State Lottery Fund							
Non-Tax Revenues:							
Lottery revenues	$ 1,152.2	$ 1,194.0	$ 1,430.1	$ 1,465.8	$ 1,405.6	$ 1,389.8	$ 1,474.3
Other and miscellaneous	18.3	17.9	29.5	32.9	34.2	21.2	179.2
TOTAL NON-TAX REVENUES	$ 1,170.5	$ 1,211.9	$ 1,459.6	$ 1,498.7	$ 1,439.8	$ 1,411.0	$ 1,653.5
TOTAL STATE LOTTERY FUND	$ 1,170.5	$ 1,211.9	$ 1,459.6	$ 1,498.7	$ 1,439.8	$ 1,411.0	$ 1,653.5

Source: Office of the Budget. Totals may not add due to rounding.
(a) Budgetary basis including taxes and interest accrued but not deposited by the Commonwealth by June 30 of each fiscal year.
(b) Includes the corporate net income and the capital stock and franchise taxes.
(c) Includes the utility gross receipts and utility property taxes.
(d) Includes the financial institution and insurance premium taxes.
(e) Includes the liquor and malt beverage taxes.
(f) As enacted on October 9, 2010 (SEE Fiscal Year 2010 Budget for additional information).

Table 12, on the following page, presents a comparison of the actual revenues on a budgetary basis to the official revenue estimate used for budget enactment for the General Fund and the Motor License Fund for fiscal years 2004 through 2009.

Table 12
Commonwealth Revenues — Official Estimate vs. Actual[a]
General Fund and Motor License Fund – Unaudited
Fiscal Year 2004 — Fiscal Year 2009
(In Millions)

	General Fund			Motor License Fund		
Fiscal Year Ended June 30	Official Estimate[b]	Actual	Variance	Official Estimate [b]	Actual	Variance
2004	$22,191.3	$22,828.0	$636.7	$2,026.3	$2,085.7	$59.3
2005	23,866.5	24,308.5	442.0	2,101.9	2,156.9	55.0
2006	24,989.9	25,854.3	864.4	2,229.2	2,265.9	36.7
2007	26,799.5	27,449.3	649.8	2,322.8	2,290.8	-32.0
2008	27,760.6	27,928.1	167.5	2,757.5	2,667.9	-89.5
2009	28,784.4	25,529.8	-3,254.6	2,732.6	2,556.8	-175.8

Source: Office of the Budget.
[a] Budgetary basis including taxes and interest accrued but not deposited by the Commonwealth by June 30 of each fiscal year.
[b] As certified for budget enactment.

Tax Revenues

Tax revenues constitute approximately 99.1 percent of Commonwealth revenues in the General Fund. The major tax sources for the General Fund of the Commonwealth are the personal income tax, the sales tax, the corporate net income tax, and the capital stock and franchise tax. Together these four taxes produce nearly 82 percent of General Fund tax revenues.

The major tax sources for the Motor License Fund are the liquid fuels taxes and the oil company franchise tax. Together these taxes produce nearly 46 percent of Motor License Fund revenues. Portions of certain taxes whose receipts are deposited into the Motor License Fund are legislatively restricted to specific transportation programs. These receipts are accounted for in restricted accounts in the Motor License Fund and are not included in the discussions of the tax revenues of the Motor License Fund.

The major tax sources for the General Fund and the Motor License Fund are described briefly below. The tax receipt amounts in the descriptions are on a budgetary basis.

Personal Income Tax. This tax accounted for $10,198.7 million or 39.9 percent of fiscal year 2009 General Fund Commonwealth revenues. The tax is levied at a flat rate on the taxable income of all residents and resident trusts and estates and taxable income attributable to Pennsylvania non-resident estates and trusts. The current tax rate of 3.07 percent became effective on January 1, 2004. Credit against the tax is allowed for gross or net income taxes paid to other states by Pennsylvania residents.

Withholding is required by employers from all persons liable for the tax with the size of collections determining the frequency for remittance to the Commonwealth. A declaration and partial payment of the estimated tax are required for those individuals with taxable incomes over $8,000 per year, other than wages subject to withholding.

Individuals and families meeting qualifying income limits do not pay personal income tax on all or a portion of their taxable income with the exemptions depending on their total income. A qualifying family of four owes no personal income tax on taxable income up to $32,000 annually.

Sales Tax. This tax accounted for $8,135.5 million or 31.9 percent of fiscal year 2009 General Fund Commonwealth revenues. The tax is levied at a rate of 6 percent on the sale, use, storage, rental or consumption of tangible personal property, cigarettes, and certain services, and upon the occupancy of hotel rooms. Substantial exemptions from the tax include clothing, food purchased in grocery stores or supermarkets, medical supplies, drugs, residential use of certain utilities, motor fuels, and machinery, equipment and items used in manufacturing, processing, farming or dairying, and utility service. The tax base was expanded in fiscal year 1992 to include a number of services not previously taxed. Beginning in fiscal year 1998, 1.22 percent of collections, up to an annual limit of $75 million, are transferred to a special fund for mass transit assistance. Beginning in fiscal year 2008 with the enactment of Act 44 of 2007, an additional 4.4 percent of receipts are transferred for transit assistance purposes.

Vendors collecting $600 or more of sales tax in the previous year's third quarter are required to remit collections monthly within 20 days of the last day of the collection month.

Corporate Net Income Tax. The Commonwealth received $1,979.9 million, or 7.8 percent of fiscal year 2009 General Fund Commonwealth revenues, from this tax. The tax is paid by all domestic and foreign corporations for the privilege of doing business, carrying on activities, or employing capital or property in Pennsylvania and is levied on federal net taxable income with Pennsylvania modifications. Building and loan associations, banks, savings institutions, trust companies, insurance and surety companies, Pennsylvania S corporations and non-profit corporations are exempt from the tax. When less than the entire business of any corporation is transacted within the Commonwealth, the taxable income in Pennsylvania is determined by an apportionment formula.

The current tax rate of 9.99 percent became effective for fiscal years beginning on or after January 1, 1995. The previous tax rate of 11.99 percent had been in effect since January 1, 1994.

The corporate net income tax is to be paid in four equal installments throughout the corporation's tax year based on estimated taxes due for the entire tax year. Any remaining portion of taxes due is to be paid with the corporation's annual report due three-and-one-half months following the end of the corporation's tax year.

Utility Gross Receipts Tax. This tax accounted for $1,376.8 million, or 5.4 percent of fiscal year 2009 General Fund Commonwealth revenues. The tax is levied on the gross receipts from business transacted within Pennsylvania by specified public utilities owned, operated or leased by corporations, associations or individuals. Public utilities owned or operated by a municipality or a municipal authority furnishing public utility services within the limits of the municipality are exempt from paying tax on the receipts arising from business done within the municipality. Beginning January 1, 2004, interstate and cellular telecommunications services are subject to the gross receipts tax. The tax rate is 50 mills, which became effective in July 1991, having been raised from its prior tax rate of 44 mills for all utilities except electric utilities, which are taxed at the rate of 44 mills. The tax rate for electric utilities is adjusted annually under provisions of a formula enacted with the deregulation of electric generation in Pennsylvania. Beginning with fiscal year 1999, 0.18 percent of receipts are transferred to a special fund for mass transit purposes. Revenue from 0.2 mills of the tax is deposited in the Alternative Fuels Incentive Grant Fund.

All firms, except public utilities owned or operated by a municipality or a municipal authority and motor transportation companies, are required to file estimated revenue reports annually, together with the tentative payment of the current year's tax calculated by applying the current tax rate to 90 percent of the tax base for the preceding year. Effective for tax years after January 1, 2000, natural gas companies became exempt from the tax. The tax report and tentative payment are required to be made by March 15. The remaining tax is due and payable by the succeeding March 15.

Capital Stock and Franchise Taxes. These taxes generated $787.7 million for the Commonwealth in fiscal year 2009, or 3.1 percent of General Fund Commonwealth revenues. They are levied on the capital stock value of domestic and foreign corporations doing business or having property or capital employed in Pennsylvania on that portion of capital stock value apportionable to Pennsylvania under a statutory formula.

Capital stock and franchise tax tentative payments are payable quarterly based on 90 percent of the tax liability of the year preceding the immediate prior year. Under current law, the General Fund tax rate for tax years that began in 2009 is 1.89 mills, having been reduced from 2.89 mills effective January 1, 2009. This tax is scheduled to be phased out by annual rate reductions through 2010 under legislation enacted in 2002 and amended in 2003 and 2006.

Cigarette Tax. Collections of this tax totaled $754.2 million in fiscal year 2009, or 3.0 percent of General Fund Commonwealth revenues. The tax is imposed and assessed on the sale or possession of cigarettes within the Commonwealth. It is levied on the consumer but is collected by the sale of stamps and meter units to dealers who affix them to each package. The current rate is $1.35 per package of 20 cigarettes, which was increased by 31 cents in 2002 and further increased by 35 cents effective in 2004. The 6 percent sales tax is also imposed on the retail sale of cigarettes. A portion of the collections from the tax are transferred to a special fund for children's health insurance and to a special fund for preserving farmland. Additionally, an amount approximately equal to 25 cents per pack is transferred to the Healthcare Provider Retention Account.

Inheritance and Estate Taxes. Collections of these taxes were $772.2 million in fiscal year 2009, or 3.0 percent of General Fund Commonwealth revenues. The inheritance tax is levied on the value of property transferred to heirs of a deceased person. Prior to July 1, 2000, the tax rate was 6 percent of the value, if passing to lineal heirs, and 15 percent if passing to collateral heirs. Effective July 1, 2000, the tax rate on transfers to parents, grandparents and lineal descendents was lowered to 4.5 percent and a new tax rate of 12 percent on transfers to siblings was established. The estate tax is a "pick-up" tax in the amount of the maximum federal tax credit less State death taxes paid. Counties collect the inheritance and estate tax, which is due within nine months following the death of the person whose property is being transferred.

Insurance Premiums Tax. This tax is levied at the rate of 2 percent of the gross premiums (subject to retaliatory provisions) on all business of domestic and foreign insurance companies transacted within the Commonwealth during each calendar year. Revenues from the two percent tax on foreign fire and casualty companies accrues to special revenue funds while the remaining taxes accrue to the General Fund. The tax on foreign companies is based on the amount of business transacted in Pennsylvania. Marine insurance companies, both domestic and foreign, pay a 5 percent tax on underwriting profits attributable to Pennsylvania in lieu of the gross premium tax.

A 90 percent tentative payment is required for insurance companies, except foreign fire and casualty companies, calculated on the tax base of the preceding tax year. As an alternative, the taxpayer may elect to make a tentative payment in an amount not less than 90 percent of the tax as finally reported. Payments must be submitted by March 15 of each year, while the remaining amount due must be paid by April 15 of the following year.

Realty Transfer Tax. This tax is levied at the rate of 1 percent of the value of the real property transferred, as represented by deed, instrument or other writing. The tax is collected by the recorders of deeds in the counties and transmitted to the Commonwealth when collected. From July 1994 through December 2001, 15 percent of the revenues from this tax was transferred to the Keystone Recreation, Park and Conservation Fund, and the remaining portion was deposited in the General Fund. For the period from January 2002 through June 2002, the transfer amount was reduced to 10 percent; from July 2002 to June 2003, the transfer was reduced to 7.5 percent. Effective July 2003, the transfer is 15 percent. The fiscal year 2007 budget included a one-year suspension of the 15 percent transfer to the Keystone Recreation, Park and Conservation Fund. Beginning with fiscal year 2008, the 15 percent transfer to the Keystone Recreation, Park and Conservation Fund has been restored.

Liquor Tax. This tax is levied at the rate of 18 percent of the net purchase price on all liquor sold by the Pennsylvania Liquor Control Board. Revenues from this tax accrue to the General Fund. The 6 percent sales tax is also imposed on all liquor sold by the Pennsylvania Liquor Control Board and is included in the sales tax receipts.

Financial Institution Taxes. The bank shares tax is levied at the rate of 1.25 percent of the value of shares of state and national banks and title insurance companies. Each institution computes the tax base by averaging the share value, adjusted to exclude the value of United States obligations, for each quarter of the previous calendar year. A payment of the tax for the current tax year is due by March 15 of that year. Revenues of this tax are deposited into the General Fund.

The mutual thrift institutions tax is levied on the taxable net income of such institutions at the rate of 11.5 percent. Revenues of this tax accrue to the General Fund. Annually, the mutual thrift institutions are required to transmit tentative reports together with a tentative payment of the current year's tax computed by applying the current tax rate to 90 percent of the tax base for the second preceding tax year. The taxpayer may elect to make a tentative payment at an amount not less than 90 percent of the tax as finally reported. Tentative reports and prepayments are due by March 15 of the current calendar year, with the remaining amount payable by April 15 of the next year.

Public Utility Realty Tax. The tax is levied on the state taxable value of utility real property belonging to a firm or other entity (i) furnishing utility service and (ii) regulated by the Pennsylvania Public Utility Commission or similar regulatory body. State taxable value is the current market value derived from assessed values for county real estate tax purposes. Certain items are specifically exempt from the tax. The tax rate for the General Fund portion of the tax is set annually by the Secretary of Revenue. The tax rate is to be set at a rate intended to produce revenues sufficient to reimburse local taxing authorities for foregone property tax revenues. Revenues from an additional 7.6 mill tax are deposited into a special revenue fund.

The tax is subject to a tentative payment of the then current year's tax liability. The tentative reports and tax payments are due in May. The remaining tax payments must be paid in September.

Malt Beverage Tax. This tax is levied on all malt or brewed beverages sold in Pennsylvania. The tax rate is $^2/_3$ cent per half-pint, 1 cent per pint and $2.48 per barrel. The various manufacturers pay the tax monthly to the Department of Revenue. Revenues from this tax are deposited into the General Fund.

Liquid Fuels Tax. This tax accounted for $520.5 million, or 20.4 percent of Motor License Fund Commonwealth revenues in fiscal year 2009. It is an excise tax imposed upon all liquid fuels used or sold within the Commonwealth. The tax is imposed upon and collected by the fuel distributor. After discounts, all monies collected are deposited in the Motor License Fund, except that an amount equal to one-half cent per gallon is deposited in the Liquid Fuels Tax Fund. Fuels sold and delivered to the U.S. government, the Commonwealth and any of its political subdivisions, public authorities, non-profit schools, volunteer fire companies, ambulance services, rescue squads, and fuels sold and delivered in interstate commerce are exempt from payment of the tax. In addition to these exemptions, reimbursement is made for fuels used for certain agricultural purposes. The present rate of the liquid fuels tax is 12 cents per gallon.

Oil Company Franchise Tax. This tax accounted for $453.4 million, or 17.7 percent of fiscal year 2009 Motor License Fund Commonwealth revenues. The tax is levied on the privilege of selling petroleum products subject to liquid fuels taxes (primarily gasoline) for transportation purposes at the rate of 153.5 mills upon each dollar of such revenues. The tax rate was increased by 38.5 mills in May 1997 to its current rate. By law, portions of the tax are dedicated to certain highway purposes, including transfers to local governments for roads and highways. Exemptions from the tax are the same as those provided from the liquid fuels tax.

Fuels Tax. This tax accounted for $149.6 million, or 5.9 percent of fiscal year 2009 Motor License Fund Commonwealth revenues. It is an excise tax imposed on fuels (primarily diesel fuel) used or sold within the Commonwealth. The tax is imposed upon and collected by the distributor. After discounts, all monies collected are deposited in the Motor License Fund, except an amount equal to one-half cent per gallon is placed in the Liquid Fuels Tax Fund for distribution to local governments. The present tax rate is 12 cents per gallon for fuel used in the Commonwealth.

Fuels exempt from this tax are those delivered in interstate commerce, those used by and sold to the Commonwealth and any of its political subdivisions, those sold and delivered to the U.S. government, those (less than 50 gallons) brought into the Commonwealth in the fuel tanks of motor vehicles, those used by public authorities, volunteer fire companies, ambulance services, rescue squads and non-profit schools, and those used for certain agricultural purposes.

Motor Carriers Road Tax. This tax is levied on motor carrier vehicles having a gross weight in excess of 26,000 pounds. All monies collected are deposited in the Motor License Fund. The current rate is 12 cents per gallon, plus an additional factor based on the oil company franchise tax for fuel used within the Commonwealth. In May 1997, the tax rate was reduced by 6 cents to its current level. The revenue lost from the tax reduction is being covered by an additional 55 mills tax rate for the oil company franchise tax. Both the repealed and the new tax portions are dedicated to bridge improvement.

Non-Tax Revenues

Licenses and Fees. License and fee receipts in the General Fund for fiscal year 2009 totaled $120.7 million, representing 0.5 percent of Commonwealth revenues to the General Fund. A general increase in various General Fund fees was enacted in December 2003 and effective beginning in January 2004. Revenues from motor vehicle licenses and fees in fiscal 2009 were $883.9 million, representing 34.6 percent of total fiscal year 2009 Motor License Fund Commonwealth revenues.

Miscellaneous Revenue. Revenues from non-tax sources not categorized elsewhere are credited to miscellaneous revenues. Interest earnings on securities and deposits are included in this source. Miscellaneous revenues receipts in the General Fund for fiscal year 2009 totaled -$30.6 million, as losses associated with equity investments resulted in significant negative earnings for the Commonwealth. Receipts from miscellaneous motor vehicle revenues in fiscal 2009 were $558.9 million, representing 21.9 percent of total fiscal year 2009 Motor License Fund Commonwealth revenues.

State Stores Fund Transfers. This is an amount determined by the Liquor Control Board to be available for transfer to the General Fund. The amount transferred for fiscal year 2009 was $125.0 million. In Pennsylvania, the distribution and sale of liquor is a state enterprise.

Fines, Penalties and Interest. This revenue source includes all fines, penalties and interest collected in the enforcement of tax regulations. The amount deposited to the General Fund for fiscal year 2009 was $20.0 million. The largest portion is from corporation tax penalties.

Tobacco Settlement Payments. The Commonwealth's portion of payments made by cigarette manufacturers participating in the Tobacco MSA are deposited in the Tobacco Settlement Fund to be used for certain health-related programs. See "COMMONWEALTH FINANCIAL STRUCTURE AND PROCEDURES – Description of Funds."

Federal Revenues

Receipts by the Commonwealth in its General Fund, Motor License Fund, Tobacco and State Lottery Fund from the federal government during fiscal year 2008 totaled $17.7 billion, while such federal receipts were $18.4 billion in fiscal year 2009. Approximately $12.1 billion, or 68.1 percent of total federal revenue to the Commonwealth for fiscal year 2008, is attributable to public health and welfare programs, the largest of which are for the Medical Assistance and Temporary Assistance to Needy Families programs. In fiscal year 2009, $12.7 billion, or 68.1 percent of federal revenues, was attributable to these types of programs. For fiscal year 2010, federal funds in the General Fund, Motor License Fund Tobacco and State Lottery Fund are estimated to be $23.9 billion.

Federal funds will be increased pursuant to the enactment of the American Recovery and Reinvestment Act (ARRA). The fiscal year 2010 budget includes estimated receipts of $1.083 billion in fiscal year 2009 and $2.715 billion in fiscal year 2010 for increased Medicaid reimbursement and flexible state stabilization funds provided by ARRA.

Major Commonwealth Expenditures

The Commonwealth's major operating funds—the General Fund, the Motor License Fund and the State Lottery Fund—provide financial resources to operate programs and fund grants. Trends in expenditures from those funds for various program areas are discussed below based on budgetary basis financial statements for fiscal year 2008 and fiscal year 2009 and the enacted budget for fiscal year 2010.

Education

In fiscal year 2009, expenditures from Commonwealth revenues for education purposes were more than $11.7 billion. The enacted budget for fiscal year 2010 includes $11 billion in education funding, a decrease of 6 percent over fiscal year 2009.

Elementary and Secondary Education. The financing of public elementary and secondary education in Pennsylvania is shared by the Commonwealth and local school districts. There are 500 local school districts in the state. With certain exceptions, each is governed by a locally elected school board responsible for the administration of the public schools in the school district with the authority to levy taxes within the limits prescribed by the Public School Code of 1949, as amended. Funds supplied by the Commonwealth supplement the funds raised locally. Local school districts receive various subsidy payments for basic instruction, vocational education, debt service, pupil transportation, employee retirement programs including Social Security and various special education programs from the Commonwealth. The largest such subsidy is the Basic Education subsidy. The enacted budget for fiscal year 2010 increases the Basic Education subsidy by $300 million, or 5.7 percent, to more than $5.5 billion paid from a combination of state and federal stimulus funds. The increase will help each qualifying school district make progress in funding the variance between its adequacy target calculated by the Department of Education and its actual spending. For each qualifying school district, the state share of this variance will be based on its local wealth and its existing tax burden. The funding formula also considers district size and geographic price differences as well as student enrollment characteristics such as family poverty levels and English language learners. For fiscal year 2010, each school district will be guaranteed, if necessary, a 2 percent increase over its fiscal year 2009 total allocation.

Certain specialized education programs are operated and administered in Pennsylvania by 29 intermediate units established by the component local school districts. These intermediate units are funded from annual General Fund appropriations and contributions from member school districts. Programs operated by intermediate units generally are special education programs for the gifted, for individuals with mental and physical disabilities, and for support of nonpublic schools through the provision of auxiliary services and the lending of instructional materials such as textbooks to children attending nonpublic schools in Pennsylvania.

Total Commonwealth expenditures for basic education programs in fiscal year 2009 were nearly $9.6 billion, representing 81.5 percent of all Commonwealth expenditures for education in fiscal year 2009. The enacted budget for fiscal year 2010 includes more than $9 billion for basic education programs.

Table 13
Fall Enrollment in Pennsylvania Public and
Non-Public Elementary Schools and Secondary Schools
School Years 2005-2009
(In Thousands)

	School Year Ended June				
	2005	**2006**	**2007**	**2008**	**2009**
Elementary Schools					
Public.........................	935	931	929	922	922
Nonpublic.................	210	203	196	190	182
Secondary Schools					
Public.........................	893	900	892	880	863
Nonpublic.................	81	78	79	76	74
Total					
Public.........................	1,828	1,831	1,821	1,802	1785
Nonpublic.................	291	281	275	266	256
Total...........................	2,119	2,112	2,096	2,068	2,041

Source: Pennsylvania Department of Education.

Philadelphia School District. The Secretary of Education of the Commonwealth, under the provisions of the Pennsylvania Public School Code (the “School Code”), declared the Philadelphia School District as distressed effective December 22, 2001. During the period of distress covered by that declaration, all powers and duties of the Philadelphia School District Board of Education granted under the School Code or any other law are suspended and all such powers and duties are vested in a school reform commission. Currently, the school reform commission statutorily consists of five members, four appointed by the Governor and one appointed by the Mayor of the City of Philadelphia. The school reform commission’s objectives are to improve the levels of academic achievement and achieve financial stability within the school district. Termination of the declaration of distress by the Secretary of Education of the Commonwealth may be made only upon the recommendation of a majority of the members of the school reform commission. Upon termination of the declaration of distress, the Philadelphia School District Board of Education will resume the exercise of its powers. Beginning in fiscal year 2006-07, $25 million, which had been appropriated separately to the Philadelphia School District, has been incorporated into the Basic Education subsidy received by the district.

Higher Education. Higher education in Pennsylvania is provided through 277 degree-granting institutions, which include the fourteen universities of the State System of Higher Education (PASSHE), four State-related universities, community colleges, independent colleges and universities and specialized degree-granting institutions. PASSHE, created in 1982 from the fourteen state-owned colleges, is administered by a Board of Governors whose members are appointed by the Governor and confirmed by the Senate. Nearly $2 billion was expended by the Commonwealth in the 2009 fiscal year for these institutions and for student financial assistance. The enacted budget for fiscal year 2010 includes nearly $1.9 billion for higher education.

Table 14
Full-Time Equivalent Enrollment at State-Supported Institutions of Higher Education
School Years 2005-2009
(In Thousands)

	School Year Ended June				
	2005	**2006**	**2007**	**2008**	**2009**
State System of Higher Education	99	100	103	104	105
State-Related Universities............	141	140	145	147	149
Community Colleges....................	88	88	91	92	95
State-Aided Institutions................	43	44	48	49	49
Total	371	372	387	392	398

Source: Governor's Executive Budget, various years.

Public Health and Human Services

The Commonwealth provides temporary support for its residents who are seeking to achieve and sustain independence. It also provides care, treatment and rehabilitation to persons with mental and physical disabilities and supports programs to prevent or reduce social, mental and physical disease and disabilities. In addition, it plans for and coordinates all the health resources within Pennsylvania. Services are provided directly through administration of programs and services, and indirectly through programs of standard setting, regulation, supervision, licensing, grants, subsidies and purchases of services.

Fiscal year 2009 public health and human services expenditures were $26.5 billion and are projected to be $26.9 billion for fiscal year 2010. With regard to fiscal year 2009 expenditures, $9.9 billion was funded from the General Fund, while $9.1 billion is estimated to be provided from the General Fund for fiscal year 2010. The state fund amounts reflect the impact of an expected enhanced federal match of $1.2 billion in fiscal year 2009 and $1.7 billion in fiscal year 2010. Federal funds are expected to increase by $903.4 million, and augmentations are expected to increase by $313 million for fiscal year 2010. Public health and human service programs are the largest single component of combined state and federal spending in the Commonwealth's operating budget. The overall budget increase reflects the impact of caseload increases as well as higher costs to provide support for former welfare clients obtaining work, federal mandates, litigation and continued support of county operated programs for child welfare, mental health and mental retardation.

The fiscal year 2010 budget includes $423.6 million of receipts from the Tobacco Settlement Fund that will be expended for health care. Federal funds matching the additional state Tobacco MSA funds are included in the increase noted above. In addition, under the terms of the 1998 settlement that created the Tobacco Settlement Fund, payments by the tobacco companies may, in certain circumstances be reduced, reflecting decline in cigarette sales, and such payments also may be limited, delayed or terminated as a result of bankruptcy or insolvency of tobacco companies or legal challenges to the settlement or to amounts due thereunder. Since fiscal year 2007, receipts from the Tobacco MSA have been reduced as certain tobacco companies decided to withhold or to place into escrow approximately $1.9 billion in payments to the various states and localities under provisions of the Tobacco MSA. The Commonwealth's share of withheld Tobacco MSA funds totals over $122.4 million. The Commonwealth has filed suit to recover the disputed payment funding withheld by tobacco companies. For fiscal year 2009, receipts from the April 2008 payment were reduced by $32.8 million. In February 2009, the Commonwealth received $31.1 million of funds released from the Disputed Payments Account as part of the litigation process, For fiscal year 2010 receipts from the April 2009 payment were reduced by $30 million.

Programs providing temporary financial assistance and medical assistance comprise the largest portion of public health and human services expenditures. General Fund expenditures for these assistance programs by the Commonwealth amounted to $5.87 billion in fiscal year 2009, while $4.96 billion is budgeted from the General Fund for fiscal year 2010. A nursing home assessment fee provided a General Fund offset of $211.9 million in fiscal year 2009 and is budgeted to provide a $204.3 million offset in fiscal year 2010. In addition, a managed care organization assessment provided a General Fund offset of $233.9 million in fiscal year 2009 and is expected to provide a $379 million offset in fiscal year 2010. Approximately 34 percent of the total cost of assistance to the economically needy is supported by Commonwealth funds appropriated from the General Fund. The balance is provided from reimbursements by the federal government and through various program collection activities conducted by the Commonwealth.

Medical assistance continues to be a rapidly growing component of public health and human services expenditures. Despite implementation of Commonwealth initiatives to restrain costs, the program continues to grow due to an expanding caseload, technology improvements and general medical inflation. Expenditures for medical assistance increased during the period from fiscal years 1999 through 2009 by an average annual rate of 8.6 percent. Fiscal year 2009 expenditures from Commonwealth funds were $5.3 billion and are projected to be $4.4 billion for fiscal year 2010, a decrease of 16.6 percent from the prior fiscal year. The decrease partially reflects the impact of an $500 million increase in projected Federal Fiscal Relief funds in fiscal year 2010 due to an increase in the Federal Medical Assistance Percentage. Income maintenance cash assistance payments to families in transition to independence were $1.3 billion for fiscal year 2009, of which $490.1 million is from the General Fund. The enacted budget for fiscal year 2010 includes a total of $1.3 billion, with $466.7 million provided from the General Fund. Cash assistance is time-limited and requires participation in work activities to maintain eligibility. To support a client's finding and retaining employment, small grants are available to clients to overcome employment obstacles such as child care, transportation, vision and hearing difficulties, and other such barriers. In fiscal year 2009 and the future, increased costs are expected to be incurred in training and support for the most hard to place clients in order to meet the 50 percent work participation requirements included in reauthorization of the Temporary Assistance to Needy Families program. These increased costs will include some state-only payments for clients who are working the required amount but still require assistance to complete training.

Transportation

The Commonwealth is responsible for the construction, restoration and maintenance of the highways and bridges in the 40,000 mile state highway system, including certain city streets that are a part of the state highway system. Assistance for the maintenance and construction of local roads and bridges is provided to municipalities through grants of financial aid. Highway maintenance costs, construction costs and assistance grants are paid from the Motor License Fund. The General Fund, the State Lottery Fund and other special funds, including the Public Transportation Assistance Fund, the Liquid Fuels Tax Fund, the Highway Beautification Fund, the Motor Vehicle Transaction Recovery Fund and the new Public Transportation Trust Fund provide the remainder of funding for transportation programs.

Act 44 provides the largest single-year increase in Commonwealth funding for transportation. Through a "public-public" partnership between the Pennsylvania Department of Transportation and the Pennsylvania Turnpike Commission and provided the Commonwealth with more funding for highways, bridges and transit. In fiscal year 2008, $750 million in additional funding was invested in the state's transportation system with $450 million going to highway and bridge projects and $300 million to mass transit projects. In fiscal year 2009, this increased to $850 million, with $500 million going to highway and bridge projects and $350 million to mass transit programs. In fiscal year 2010, $900 million will be invested with $500 million for highway and bridge projects and $400 million for mass transit. After fiscal year 2010, investments were planned to rise 2.5 percent annually. Initially, funding for the additional investments would come from up to $5 billion in bonds to be issued by the Pennsylvania Turnpike Commission, to be repaid over time with revenue from a 25 percent toll increase on the Pennsylvania Turnpike beginning in 2009 and from new tolls to be collected on Interstate 80. In October 2007, the Turnpike Commission and the Department of Transportation signed a 50 year lease agreement in which the Turnpike agreed to provide the aforementioned payments to the Department of Transportation in exchange for authority to toll and operate Interstate 80. A joint application to the Federal Highway Administration seeking federal authorization to toll and improve Interstate 80 was submitted on October 13, 2007. In

September 2008, the Federal Highway Administration notified the Commonwealth that it was required to reject the state's application to toll Interstate 80 as the application did not meet the technical requirements of the federal law. The Pennsylvania Department of Transportation and the Pennsylvania Turnpike Commission will submit a revised application to the federal government. In the event that the federal government maintains its rejection of the proposed tolling of Interstate 80, lease payments from the Turnpike Commission to the Commonwealth would likely decline by an estimated $450 million annually beginning in fiscal year 2011 plus an additional 2.5% of $900m in 2010 and subsequent years. The possible reduction in lease payments would lead to a decrease of $200 million in annual expenditures for highway and bridge projects and a $250 million decrease in expenditures for mass transit.

In addition to its unrestricted state funds, the Motor License Fund includes five restricted revenue accounts funded by specific state revenues legislatively dedicated to specific purposes. Some of the restricted purposes funded from these accounts also receive funding by annual appropriations of unrestricted Motor License Fund revenues. Programs receiving funds from a restricted account include highway bridges, highway construction and maintenance, grants to municipalities for highways and bridges, and airport development.

Total funding for the Commonwealth's highway and bridge program for fiscal year 2008 was $2.179 billion. This level increased to $2.259 billion in fiscal year 2009 and is expected to decline to $2.151 billion in fiscal year 2010.

Support of highway and bridge expenditures by local governments through grants paid from Motor License Fund and restricted revenues was $361.3 million in fiscal year 2008. In fiscal year 2009 and in fiscal year 2010, grants to local governments will total $362.0 million and $345.7 million respectively.

In addition to its support of the highway system, the Commonwealth provides subsidies for mass transit systems including passenger rail and bus service.

In fiscal year 2008, the funding mechanisms for mass transit in the Commonwealth were also changed with the enactment of Act 44. Mass transit funding was shifted from the General Fund to a combination of sources of revenue primarily going into a new Public Transportation Trust Fund. The Public Transportation Trust Fund, established by Act 44, was created to provide a long-term, predictable and growing source of revenues for public transportation systems. A new, dedicated revenue stream consisting of 4.4 percent of the Pennsylvania Sales and Use Tax is earmarked for mass transit systems. The Public Transportation Trust Fund also receives revenues from the Public Transportation Assistance Fund, the Lottery Fund, and lease payments from the Pennsylvania Turnpike Commission relating to the proposed lease of Interstate 80. This funding supports mass transit programs statewide providing financial assistance for operating costs, capital costs, and certain administrative costs for the Department of Transportation. For fiscal year 2008, Commonwealth funding available for mass transit was $1.043 billion. In fiscal year 2009 and in fiscal year 2010, funding for mass transit will total $1.101 billion and $1.174 billion respectively.

The Commonwealth's current aviation program funds the development of public airport facilities through grants providing for airport development, runway rehabilitation, and real estate tax rebates for public use airports. Taxes levied on aviation and jet fuel provide revenues for a restricted account for aviation programs in the Motor License Fund. In fiscal year 2008, $9.3 million was expended from the aviation restricted account for such purposes. A total of $9.3 million is budgeted for fiscal year 2009 and $9.3 million is available for fiscal year 2010.

The Commonwealth is not responsible for the toll roads and bridges in Pennsylvania. These are under the jurisdiction of various authorities and commissions. See "GOVERNMENT AUTHORITIES AND OTHER ORGANIZATIONS."

OUTSTANDING INDEBTEDNESS OF THE COMMONWEALTH

General

The Constitution permits the Commonwealth to incur the following types of debt: (i) debt to suppress insurrection or rehabilitate areas affected by disaster, (ii) electorate-approved debt, (iii) debt for capital projects subject to an aggregate debt limit of 1.75 times the annual average tax revenues of the preceding five fiscal years, and (iv) tax anticipation notes payable in the fiscal year of issuance. All debt except tax anticipation notes must be amortized in substantial and regular amounts. See Appendix E for the text of selected constitutional provisions relating to the finances of the Commonwealth.

Debt service on Commonwealth general obligation debt is paid from appropriations out of the General Fund except for debt issued for highway purposes, which is paid from Motor License Fund appropriations.

Table 15
General Obligation Debt Outstanding[(a)]
Fiscal Years 2000-2009
(In Millions)

June 30	General Obligation Debt Outstanding
2000	$5,014.9
2001	5,416.2
2002	6,059.3
2003	6,767.2
2004	6,892.6
2005	6,747.4
2006	7,287.0
2007	7,834.0
2008	8,177.0
2009	8,653.7

(a) Net of sinking fund balances for all debt.

Net outstanding general obligation debt totaled $8,653.7 million at June 30, 2009, a net increase of $476.7 million from June 30, 2008. Over the 10-year period ended June 30, 2009, total net outstanding general obligation debt increased at an annual rate of 5.8 percent. Within the most recent 5-year period, outstanding general obligation debt has increased at an annual rate of 4.7 percent.

General obligation debt for non-highway purposes of $8,388.7 million was outstanding on June 30, 2009. Outstanding debt for these purposes increased by a net $298.8 million since June 30, 2008. For the period ended June 30, 2008, the 10-year and 5-year average annual compound growth rate for total outstanding debt for non-highway purposes has been 6.7 percent and 4.6 percent respectively. In its current debt financing plan, Commonwealth infrastructure investment projects include improvement and rehabilitation of existing capital facilities and construction of new facilities, such as public buildings, prisons and parks, transit facilities, economic development and community facilities, and environmental remediation projects.

Outstanding general obligation debt for highway purposes was $265.0 million on June 30, 2009, an increase of $177.9 million from June 30, 2008. Highway outstanding debt had declined over the most recent 10-year and 5-year periods ended June 30, 2008, by the annual average rates of 18.1 percent and 17.8 percent respectively. The decline in outstanding highway debt was due to the policy begun in 1980 of funding highway capital projects with current revenues except for very limited exceptions. However, beginning with the enacted fiscal year 2009 budget, the Commonwealth has initiated a multi-year plan to issue an average of $200 million in general obligation bonds annually to accelerate the rehabilitation of a portion of the Commonwealth's 6,000 structurally deficient bridges. Funding to support the proposed debt issuance will be initially provided from an existing restricted account rather than from general revenues of the Motor License Fund or the General Fund. During the 2009 fiscal year, the Commonwealth issued $200 million in general obligation bonds in order to jumpstart its bridge rehabilitation program. The fiscal year 2010 budget includes $200 million in general obligation debt authority for the bridge rehabilitation program.

Table 16 shows selected debt ratios for the Commonwealth for fiscal year 1999 and for fiscal years 2005 through 2009. Table 16 contains corrections to certain prior fiscal year data as well as a revision in the methodology to account for debt service payments to include funding from all sources rather than debt service as paid from appropriations (resulting in some information in Table 16 being different from that appearing in previous official statements of the Commonwealth).

Table 16
Selected Debt Ratios
Fiscal Years 1999 and 2005 to 2009

	Fiscal Year Ended June 30					
	1999	2005	2006	2007	2008	2009
Net Outstanding Debt (Millions)						
General Obligation Debt(a)............................	$ 4,925	$ 6,747	$ 7,287	$ 7,834	$ 8,177	$ 8,653
Lease Payment Obligations(b)........................	721	108	476	648	1,119	1,183
Total...	$ 5,646	$ 6,855	$ 7,763	$ 8,482	$ 9,296	$ 9,836
% Increase (Decrease) over prior year...........	2.9%	-2.2%	13.2%	9.3%	9.6%	5.8%
Population (Thousands)	11,994	12,405	12,403	12,433	12,448	12,448
Per Capita Debt..	$ 471	$ 553	$ 626	$ 682	$ 747	$ 790
Personal Income (Millions)............................	$ 342,357	$ 431,951	$ 456,732	$ 482,245	$ 501,225	$ 501,225
Debt as a % of Personal Income...................	1.7%	1.6%	1.7%	1.8%	1.9%	2.0%
Debt Service (Millions)(c)						
Highway Bonds(d)..	$ 141	$ 33	$ 36	$ 30	$ 30	$ 26
All Other Bonds...	557	766	800	849	912	975
Lease Payments..	86	12	17	47	58	74
Total...	$ 784	$ 811	$ 853	$ 926	$ 1,000	$ 1,075
Increase (Decrease) Over Prior Year	0.4%	4.0%	5.2%	8.6%	8.0%	7.5%
Cash Revenues (Million)[e]						
Motor License Fund.....................................	$ 1,885	$ 2,157	$ 2,266	$ 2,291	$ 2,668	$ 2,635
General Fund...	19,227	24,309	25,854	27,449	27,928	25,529
Total...	$ 21,112	$ 26,465	$ 28,120	$ 29,740	$ 30,596	$ 28,164
% Increase (Decrease) over prior year..........	5.9%	6.2%	6.3%	5.8%	2.9%	(8.0%)
Highway Bond Debt Service as a % of Motor Fund Revenues..	7.5%	1.5%	1.6%	1.3%	1.1%	1.0%
All Other Bond Debt Service and Lease % of General Fund Revenues...........................	3.3%	3.2%	3.2%	3.3%	3.5%	4.1%
Total Debt Service and Lease Payments as a % License and General Fund Revenues.................	3.7%	3.1%	3.0%	3.1%	3.3%	3.8%

(a) Net of all sinking fund balances. Includes bond anticipation notes.
(b) Includes unduplicated data of issues contained in Table 20.
(c) As paid from appropriations, available funds and/or sinking fund balances.
(d) Highway Bonds, interest portion of Advance Construction Bonds, Highway Public Improvement Bonds, State Highway and Bridge Authority Bonds, General Authority Rentals, and Highway Bridge Improvement Bonds.
(e) Commonwealth revenues only.

General Obligation Debt Outstanding

As of June 30, 2009, the Commonwealth had the following amount of general obligation debt outstanding:

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Table 17
General Obligation Debt Outstanding as of June 30, 2009
(In Thousands)

	Debt Outstanding[b]	Less: Refunding Escrow[c]	Less: Sinking Fund[d]	Net Debt Outstanding
Capital Projects Debt:				
Capital Facilities Bonds	$ 6,154,120	$ (1,257,230)	$ (11,267)	$ 4,885,623
Highway Bonds(e)	200,000	-	-	200,000
Refunding Bonds(e)	2,564,872	-	-	2,564,872
Total Capital Projects Debt Outstanding	$ 8,918,992	$ (1,257,230)	$ (11,267)	$ 7,650,495
Electorate Approved Debt:				
PA Economic Revitalization Bonds	$ 1,790	-	-	$ 1,790
Land & Water Development Bonds	900	-	(56)	844
Nursing Home Loan Development Bonds	-	-	-	-
Volunteer Companies' Loan Bonds	295	-	-	295
Vietnam Veterans Compensation Bonds	-	-	-	-
Water Facilities Restoration-1981 Referendum	6,555	-	-	6,555
Pennvest—1988 Referendum Bonds	36,765	-	(1,759)	35,006
Pennvest—1992 Referendum Bonds	82,005	(3,750)	-	78,255
Agricultural Conservation Easement Bonds	2,380	-	-	2,380
Local Criminal Justice Bonds	6,390	(1,400)	-	4,990
Keystone Recreation, Parks & Conservation Bonds	-	-	-	-
Growing Greener Bonds	367,370	-	-	367,370
Water Supply and Wastewater Treatment Bonds	182,935	-	-	182,935
Persian Gulf Conflict Veterans	6,780	-	-	6,780
Total Electorate Approved Debt Outstanding	$ 694,165	$ (5,150)	$ (1,815)	$ 687,200
Other Bonded Debt:				
Disaster Relief Bonds	$ 12,565	(9,390)	-	$ 3,175
Refunding Bonds	312,808	-	-	312,808
Total Other Bonded Debt Outstanding	$ 325,373	$ (9,390)	-	$ 315,983
Total General Obligation Debt Outstanding	$ 9,938,530	$ (1,271,770)	$ (13,082)	$ 8,653,678

[a] Reserved
[b] Accreted value of capital appreciation bonds included.
[c] Principal amount of bonds refunded to be paid from State Treasurer escrow account.
[d] Balance in sinking fund.
[e] Refunding Bonds in the principal amount of $65.0 million have refunded prior bonds issued as Highway Bonds. Debt service on these Refunding Bonds remain payable from the Motor License Fund.

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Debt service payable during each fiscal year on outstanding general obligation debt, net of refunding escrow amounts, as of June 30, 2009, for the years shown is as follows:

Table 18
Bond Debt Service
(In Thousands)

Fiscal Year Ending June 30	Principal	Interest	Total
2010	$626,090	$414,717	$1,040,807
2011	645,315	386,060	1,031,375
2012	649,370	353,837	1,003,207
2013	631,310	319,987	951,297
2014	585,990	288,320	874,310
2015	529,435	260,184	789,619
2016	496,385	234,862	731,247
2017	472,645	210,561	683,206
2018	469,070	187,463	656,533
2019	463,225	164,535	627,760
2020	437,490	142,407	579,897
2021	425,570	122,343	547,913
2022	413,200	102,839	516,039
2023	366,085	84,686	450,771
2024	347,485	66,969	414,454
2025	300,685	50,698	351,383
2026	299,280	36,416	335,696
2027	249,985	22,257	272,242
2028	176,445	10,702	187,147
2029	81,700	3,874	85,574
Grand Total	$ 8,666,760	$ 3,463,716	$12,130,476

Totals may not add due to rounding.

Nature of Commonwealth Debt

Capital Projects Debt. The Commonwealth may incur debt to fund capital projects for community colleges, highways, public improvements, transportation assistance, flood control, and redevelopment assistance. Before a project may be funded, it must be itemized in a capital budget bill adopted by the General Assembly. An annual capital budget bill states the maximum amount of debt for capital projects that may be incurred during the current fiscal year for projects authorized in the current or previous years' capital budget bills. Capital projects debt is subject to a constitutional limit on debt.

Once capital projects debt has been authorized by the necessary legislation, issuance authority rests with two of the Issuing Officials (the Governor, the State Treasurer and the Auditor General), one of whom must be the Governor.

Electorate-Approved Debt. The issuance of electorate-approved debt is subject to the enactment of legislation that places on the ballot the question of whether debt shall be incurred. The legislation authorizing the referendum must state the purposes for which the debt is to be authorized and, as a matter of practice, includes a maximum amount of funds to be borrowed. Upon electorate approval and enactment of legislation implementing the proposed debt-funded program, bonds may be issued. All such authorizing legislation to date has given issuance authority to two of the Issuing Officials, one of whom must be the Governor.

Other Bonded Debt. Debt issued to rehabilitate areas affected by disasters is authorized by specific legislation. Authorizing legislation has given issuance authority to two of the Issuing Officials, one of whom must be the Governor.

Tax Anticipation Notes. Due to the timing of major tax payment dates, the Commonwealth's General Fund cash receipts are generally concentrated in the last four months of the fiscal year, from March through June. Disbursements are distributed more evenly throughout the fiscal year. As a result, operating cash shortages can occur during certain months of the fiscal year. When necessary, the Commonwealth engages in short-term borrowing to fund expenses within the fiscal year through the sale of tax anticipation notes. The authority to issue such notes rests with the Issuing Officials.

The Commonwealth may issue tax anticipation notes only for the account of the General Fund or the Motor License Fund or both such funds. The principal amount issued, when added to that outstanding, may not exceed in the aggregate 20 percent of the revenues estimated to accrue to the appropriate fund or both funds in the fiscal year.

Tax anticipation notes must mature within the fiscal year in which they were issued. The Commonwealth is not permitted to fund deficits between fiscal years with any form of debt. Any year-end deficit balances must be funded within the succeeding fiscal year's budget.

Currently, the Commonwealth has no tax anticipation notes outstanding. In the last eleven fiscal years, the Commonwealth has not issued any tax anticipation notes. The fiscal year 2010 budget anticipates that the Commonwealth will issue tax anticipation notes.

Bond Anticipation Notes. Pending the issuance of bonds, the Commonwealth may issue bond anticipation notes subject to the applicable statutory and constitutional limitations generally imposed on bonds. The term of such borrowings may not exceed three years. Issuing authority rests with the Issuing Officials. No bond anticipation notes are outstanding.

Projected Issuance of Long-Term Debt

Table 19 shows projected future issuance of new-money long-term bonds or bond anticipation notes through fiscal year 2014 as currently estimated based on current authorizations. Included in Table 19 are bonds expected to be issued under three bond referendums proposed by the Governor and enacted by the General Assembly in 2004, 2005 and 2008. Not included however, are bonds authorized under the economic stimulus program of the Commonwealth Financing Authority. Actual issuance of bonds will be affected by a number of economic and other factors and may vary significantly from this projection.

Table 19
Projected Bond Issuance and Principal Retirements
Fiscal Years 2010-2014[a]
(In Millions)

	Fiscal Year Ending June 30				
	2010	**2011**	**2012**	**2013**	**2014**
Capital Facilities[b]					
Buildings and Structures	$ 920	$ 1,290	$ 675	$ 480	$ 420
Furniture and Equipment	15	60	10	0	0
Transportation Assistance	192	175	175	175	175
Redevelopment Assistance	325	330	325	250	50
Flood Control	30	7	0	0	0
Bridge Projects	200	200	200	200	200
Special Purpose:					
Pennvest — 1988, 1992 & 2008 Referenda	100	100	100	100	0
Local Criminal Justice	0	0	0	0	0
Disaster Relief	0	0	0	0	0
Water Facilities Loan—1981 Referendum	0	0	0	0	0
Water and Wastewater Referendum[a]	45	39	0	0	0
Persian Gulf Conflict Veterans Comp. Ref.[a]	3	5	3	0	0
Growing Greener II Referendum[a]	120	121	121	0	0
Total Projected Issuance	$ 1,950	$ 2,327	$ 1,488	$ 1,205	$ 845
Principal Retirement[c]	$ 710.4	$ 783.1	$ 826.1	$ 838.3	$ 831.0

Totals may not add due to rounding.
[a] As provided in the fiscal year 2010 budget.
[b] Includes issuance for new projects and for projects previously authorized.
[c] On bonded debt outstanding and pro forma for projected, including the Bonds.

OTHER STATE-RELATED OBLIGATIONS

Moral Obligations

Moral obligation financing is a financing arrangement in which designated officials of the Commonwealth, its departments or agencies agree, when necessary, to request the General Assembly to appropriate funds as may be required to make up any deficiency in a debt service reserve fund established to assure payment of obligations issued under such an arrangement. The General Assembly is not required to approve such appropriation requests.

Pennsylvania Housing Finance Agency ("PHFA"). The PHFA is a state-created agency that provides financing for housing for lower and moderate income families in the Commonwealth. The bonds, but not the notes, of the PHFA are partially secured by a capital reserve fund required to be maintained by the PHFA in an amount equal to the maximum annual debt service on its outstanding bonds in any succeeding calendar year. If there is a potential deficiency in the capital reserve fund or if funds are necessary to avoid default on interest, principal or sinking fund payments on bonds or notes of PHFA, the statute creating PHFA provides a mechanism for obtaining additional funds. That mechanism directs the Governor, upon notification from PHFA, to place in the budget of the Commonwealth for the next succeeding year an amount sufficient to make up any such deficiency or to avoid any such default. The budget as finally adopted by the General Assembly may or may not include the amount so placed therein by the Governor. PHFA is not permitted to borrow additional funds so long as any deficiency exists in the capital reserve fund. No deficiency exists currently.

According to PHFA, as of June 30, 2009, PHFA had $4,274.1 million of revenue bonds outstanding.

Lease Financing

The Commonwealth, through several of its departments and agencies, leases various real property and equipment. Some leases and their respective lease payments are, with the Commonwealth's approval, pledged as security for debt obligations issued by certain public authorities or other entities within the state. All lease payments payable by Commonwealth departments and agencies are subject to and dependent upon an annual spending authorization approved through the Commonwealth's annual budget process. The Commonwealth is not required by law to appropriate or otherwise provide moneys from which the lease payments are to be paid. The obligations to be paid from such lease payments are not bonded debt of the Commonwealth.

Table 20 contains summary information on obligations of significant amounts secured by lease payments from leases with Commonwealth departments and agencies payable from the General Fund or other budgeted special funds.

Table 20
Obligations Secured By Commonwealth Lease Payments
(In Thousands)

Lessor	Purpose	Maximum Annual Lease Payment	Principal Amount Outstanding as of 6/30/2009	Final Maturity
Harristown Development Corporation	Office Space	$ 6,306	$ 42,995	May 1, 2016
Philadelphia Regional Port Authority	Port Facilities	4,601	39,400	Sept. 1, 2020
Sports & Exhibition Authority of Pittsburgh and Allegheny County	Public Auditorium	19,100	309,005	Nov. 1, 2039

The Harristown Development Corporation leases office space to the Commonwealth in the city of Harrisburg. Certificates of participation in the principal amount of $71,135,000 were issued in October 2001, representing undivided rights in the lease payments by the Commonwealth to the Harristown Development Corporation for nearly one million square feet of office space occupied by Commonwealth departments and agencies since 1978.

The Commonwealth has also leased port facilities of the Philadelphia Regional Port Authority ("PRPA") to encourage trade through the Port of Philadelphia. Lease revenue bonds of PRPA in the amount of $53.9 million were issued by that authority in August 2003 to refund all outstanding PRPA Series 1993 Bonds. Lease revenue bonds of PRPA in the amount of $41.9 million were issued by that authority in September 2008 to refund the outstanding PRPA Series 2003 Bonds. These bonds are payable from lease payments made by the Commonwealth from an annual appropriation authorizing payments to PRPA.

The 1993 and the 2003 lease obligations and agreements to lease various other facilities and equipment entered into by the Commonwealth are included in Note K to the Fund Financial Statements for the fiscal year ended June 30, 2008. The 2008 lease obligations will be included in Note K to the Fund Financial Statements for the fiscal year ended June 30, 2009.

Commonwealth Financing Authority

The Commonwealth Financing Authority (the "CFA"), a major component of the Governor's Economic Stimulus Proposals for the Commonwealth, was established in April 2004 with the enactment of legislation establishing the CFA as an independent authority and an instrumentality of the Commonwealth. The CFA is authorized to issue its limited obligation revenue bonds and other types of limited obligation revenue financing for the purposes of promoting the health, safety, employment, business opportunities, economic activity and general welfare of the Commonwealth and its citizens through loans, grants, guarantees, leases, lines and letters of credit and other financing arrangements to benefit both for-profit and non-profit entities. The CFA's bonds and financings are to be secured by revenues and accounts of the CFA, including funds appropriated to CFA from general revenues of the Commonwealth for repayment of CFA obligations. The obligations of the CFA do not constitute a debt or liability of the Commonwealth but rather, the obligations are be payable from appropriations of the Commonwealth.

In November 2005, the CFA issued its first bonds and since that time, the CFA has completed three additional bond issues. As of June 30, 2009, the CFA had $791.5 million in outstanding bond debt. The Commonwealth's fiscal year 2010 enacted budget appropriates $67.235 million in state funds to the CFA for payment of all or a portion of CFA debt service during fiscal year 2010. Further, a balance of $4.7 million remains available from prior year appropriations to support CFA debt service payments. Additional appropriations from Commonwealth General Funds for future debt service beyond those mentioned in this section are expected to be requested by the Department of Community and Economic Development for inclusion in future Governor's Executive Budget requests to the General Assembly.

As part of the enactment process for the fiscal year 2009 budget, the General Assembly enacted and on July 9, 2008, the Governor signed into law Act 63 of 2008 ("Act 63") and Act 1 of Special Session 1 of 2008 ("Act 1"). Combined, these two acts provide the CFA with additional bond indebtedness authority of up to $1,300 million. Act 63 of 2008 provides the CFA with authority to issue up to $800 million in limited obligation revenue bonds in order to fund water or sewer projects, storm water projects, flood control projects and high hazard unsafe dam projects. Act 63 also provides for the use of Pennsylvania Gaming and Economic Development and Tourism Fund revenues to support debt service costs associated with the $800 million in additional CFA debt authority. Act 1 provides the CFA with authority to issue up to $500 million in limited obligation revenue bonds to fund the development of alternative sources of energy. It is projected that portions of the increased CFA debt authority will be issued over the next two to four fiscal years. As of October 31, 2009, the CFA has issued $100.0 million in limited obligation revenue bonds authorized by Act 1. Further, the CFA has issued $400.0 million in limited obligation revenue bonds authorized by Act 63.

Lease for Pittsburgh Penguins Arena

In October 2007, the Commonwealth and the Sports and Exhibition Authority of Pittsburgh and Allegheny County (the "SEA") entered into a lease agreement (the "Arena Lease") that, while not creating indebtedness of the Commonwealth, creates a "subject to appropriation" obligation of the Commonwealth. The SEA, a joint public benefit authority, issued in October 2007 its $313.3 million Commonwealth Lease Revenue Bonds (the "Arena Bonds") to finance a multi-purpose arena (the "Arena"), which will serve as the home of the Pittsburgh Penguins (the "Penguins"), a hockey team in the National Hockey League. The Arena Bonds are not debt of the Commonwealth but are limited obligations of the SEA payable solely from the Special Revenues pledged therefor. These Special Revenues include annually (1) $4.1 million from a lease with the Penguins, (2) not less than $7.5 million from the operator of a casino located in the City of Pittsburgh, and (3) $7.5 million from the Commonwealth's Economic Development and Tourism

Fund (the "Development and Tourism Fund"). The Development and Tourism Fund is funded with an assessment of five percent of the gross terminal revenue of all total wagers received by all slot machines in the Commonwealth less cash payments.

While the Special Revenues currently are projected to be adequate to pay all debt service on the Arena Bonds, to the extent such revenues are in any year inadequate to cover debt service, the Commonwealth is obligated under the Arena Lease to make up the deficiency. The obligation of the Commonwealth to make such payments is subject in all cases to appropriation by the General Assembly. The maximum annual amount payable by the Commonwealth under the Arena Lease is $19.1 million. In December 2008, the Commonwealth was notified by the SEA that an additional $5.08 million will be required in fiscal year 2010 to support debt service. In compliance with its obligations under the Arena Lease, the Commonwealth included an appropriation request for $5.08 million from the Pennsylvania Gaming and Economic Development Tourism Fund as part of its fiscal year 2010 budget.

As of January 2010, the SEA has indicated that it plans to issue an additional $18 million in supplemental Commonwealth Lease Revenue Bonds during early 2010 (the "Supplemental Arena Bonds"). Proceeds from the Supplemental Arena Bonds will be used to complete the Arena. Once issued, the Supplemental Arena Bonds would not constitute debt of the Commonwealth but would be limited obligations of the SEA payable solely from the Special Revenues pledged therefor. As with the Arena Bonds, the Commonwealth would be obligated under the Arena Lease, as amended, to make up any deficiency in Special Revenues necessary to pay debt service for the Supplemental Arena Bonds. The obligation of the Commonwealth to make such payments would be subject in all cases to appropriation by the General Assembly.

Pensions and Retirement Systems

General Information

The Commonwealth maintains contributory benefit pension plans covering all state employees, public school employees and employees of certain state-related organizations. State employees and employees of certain state-related organizations are members of the State Employees' Retirement System ("SERS"). Public school employees are members of the Public School Employees' Retirement System ("PSERS"). With certain exceptions, membership in the applicable retirement system is mandatory for covered employees.

SERS and PSERS are established by state law as independent administrative boards of the Commonwealth, each directed by a governing board, which exercises control and management of its system, including the investment of its assets. The board of the SERS consists of eleven members, six appointed by the Governor, two members each from the Senate and House of Representatives and the State Treasurer. The PSERS board has fifteen members, including the Commonwealth's Secretary of Education, the State Treasurer, the executive secretary of the Pennsylvania School Boards Association, two members appointed by the Governor, six elected members (five from among PSERS members and one from among school board members in Pennsylvania) and two members each from the Senate and the House of Representatives.

The retirement plans of SERS and PSERS are contributory defined benefit plans for which the benefit payments to members and contribution rates by employees are specified in state law. Changes in benefit and contribution provisions for each retirement plan must be made by legislation. Under statutory provisions established in 1981, all legislative bills and amendments proposing to change a public employee pension or retirement plan are to be accompanied with an actuarial note prepared by an enrolled pension actuary providing an estimate of the cost and actuarial effect of the proposed change.

The Commonwealth's retirement programs are funded by contributions from both the employer and employee. The contribution rate for new PSERS members who enroll in the pension plan on or after January 1, 2002 is 7.5 percent of compensation. The contribution rates for PSERS members who enrolled prior to such date range from 5 percent to 7.5 percent of compensation depending upon their date of employment and elections made by the member. The SERS' employee contribution rate is 6.25 percent for a majority of its members. Interest on each employee's accumulated contributions is credited annually at a 4 percent rate mandated by state statute. Accumulated contributions plus interest credited are refundable to covered employees upon termination of their employment.

Act 40 of 2003 (“Act 40”), passed by the General Assembly on December 10, 2003, amended the PSERS’ actuarial cost method. Under Act 40, both the outstanding balance of the unfunded accrued liability as of June 30, 2001 and the decrease in the unfunded accrued liability due to the actuarial asset method change provided by Act 38 of 2002 (“Act 38”), passed by the General Assembly on April 23, 2002, continue to be amortized over a 10-year period, with level dollar funding, beginning July 1, 2002. Under Act 38, they were amortized over 30 years. The increases in the unfunded accrued liability due to the July 1, 2002 and July 1, 2003 cost-of-living adjustments provided by Act 38 continue to be amortized over a 10-year period, with level dollar funding, starting on July 1, 2003 and July 1, 2004, respectively. All other changes in the unfunded accrued liability at June 30, 2001, June 30, 2002, and June 30, 2003, are amortized over a 30-year period, with level dollar funding, starting on July 1, 2002, July 1, 2003, and July 1, 2004, respectively. Future benefit improvements for active members and retirees will be amortized over a 10-year period with level dollar funding. Future gains and losses will be amortized over a 30-year period with level dollar funding. Act 40 requires a minimum employer contribution of 4.00 percent for pension plus the required healthcare contribution rate for PSERS.

With respect to SERS, Act 40 set the amortization period for the accrued liabilities at 10 and 30 year schedules with level payments. Additionally, Act 40 increased minimum employer contributions for SERS to 2 percent, 3 percent, and 4 percent effective July 1, 2004, 2005, and 2006, respectively; these minimum contribution provision for SERS were set to expire on July 1, 2007 but Act 8 of 2007, which was passed by the General Assembly on June 18, 2007, established an ongoing minimum floor contribution rate of 4 percent. The enacted budget for fiscal year 2009 included sufficient funds to maintain pension contributions at the 4.0 percent level. SERS supplemental annuity contributions are funded over 10 years with level dollar payments. SERS employer rates vary by class/category of service. The SERS composite employer rate was 3.02 percent in fiscal year 2006, 4.02 percent in fiscal year 2007 and 4.04 percent in fiscal years 2008 and 2009, and is 4.01 percent in fiscal year 2010.

For PSERS, the employer’s contribution is shared by the Commonwealth and the school districts. For school entities, the Commonwealth remits its employer contribution portion to those school entities, which then remit the entire employer contributions (both school entity and Commonwealth portions) to PSERS. The Commonwealth’s contribution is appropriated annually from the General Fund to the Department of Education. The PSERS employer rate was 6.46 percent in fiscal year 2007, 7.13 percent in fiscal year 2008, and 4.76 percent in fiscal year 2009. For fiscal year 2010, the PSERS Board has certified an employer rate of 4.78 percent.

Commonwealth contributions to SERS and PSERS were $219.0 million and $382.8 million respectively in fiscal year 2007. During fiscal year 2008, Commonwealth contributions for both SERS and PSERS were $237.5 million and $451.2 million respectively, an 8.4 and 18 percent increase respectively in the year-over-year contribution to each system. During fiscal year 2009, Commonwealth contributions for both SERS and PSERS were $228.5 million and $360.6 million, a 3.8 and 20.1 percent reduction respectively in year-over-year contributions to each system. The enacted budget for fiscal year 2010 includes contributions of $226.4 million for SERS, or a 0.9% reduction in year-over-year SERS contributions. The enacted budget for fiscal year 2010 includes contributions of $334.5 million for PSERS, a 7.2 percent decrease in the year-over-year contribution to PSERS.

Based on the most recent valuations of the two systems, Commonwealth contributions to both systems are projected to increase significantly in fiscal year 2013. The most recent actuarial projections forecast that Commonwealth contributions to PSERS will remain at or around the minimum contribution levels as provided by Act 40 of 2003 through fiscal year 2012, due mainly to the continued effect of the change in the amortization period from 30 years to 10 years in Act 40. With respect to SERS, the impact of the actuarial methodology required by Act 40 and Act 8 of 2007 respectively is also forecast to maintain employer rates at relatively low levels through fiscal year 2010-11. In fiscal year 2011-12 the SERS employer rate is expected to jump to 8.8 percent.

However, at the end of the 10-year amortization period covered by Act 40, Commonwealth contributions to PSERS and SERS are projected to rise sharply. Based on the December 31, 2008 valuation, SERS’ employer rate is currently projected to rise to 28.3 percent in fiscal year 2013 and to remain in the high 20 percent to low 30 percent of payroll range in the years following fiscal year 2012-13. With respect to PSERS, in fiscal year 2012-13, and based on the system's most recently-completed actuarial valuation on June 30, 2008, the employer contribution rate for PSERS is projected to increase to 20.16 percent of payroll. However, as noted in the following section, PSERS' employer rate projections will be modified sharply upwards at the time of the system's next actuarial valuation due to substantial investment losses that have been incurred since June 2008.

Prior to recent market downturns, both SERS and PSERS had generated strong investment returns: 17.2 percent for SERS for calendar year 2007 and 22.93 percent for PSERS in fiscal year 2007. However, in common with many other public pension systems in the United States, the recent global economic crisis and resulting recession have had a dramatic negative impact on PSERS and SERS' investment performance. For the fiscal year ended on June 30, 2009, PSERS had generated a negative 26.54 percent annual return. SERS' return on investments for calendar year 2008 was negative 28.7 percent.

Precise employer rate projections for fiscal year 2013 that take into account PSERS substantial investment losses in fiscal year 2008-09 will not be known until the next actuarial valuation is completed. However, given the magnitude of the system's losses over the 12 month period ended June 30, 2009, the new actuarial valuation (when finalized) will project an employer contribution rate for fiscal year 2013 that may exceed the original projection of 27.73 percent.

Additional pension fund investment losses would be expected to further increase the projected employer contribution for SERS starting in fiscal year 2012 or 2013 and for PSERS in fiscal year 2011.

Reflecting the above numbers and factors, the Commonwealth currently is actively evaluating ways both to moderate and to finance these projected contribution increases.

Contributions to the pension plans by the employer (including normal costs and payments to amortize prior service costs and medical premium assistance payments), employee contributions, interest earnings on the plans and benefit payments are shown in the tables on the following page, which have been prepared by the staffs of SERS and PSERS.

Table 21
Public School Employees' Retirement Fund
(In Millions)

Year Ended June 30	Employer Contributions	Employee Contributions	Net Investment Income (Loss)	Total Deductions From Plan Net Assets[(a)]	Net Assets[(b)]
2004....................	$ 407	$ 944	$ 8,245	$ 3,547	$ 48,537
2005....................	458	956	6,081	3,920	52,111
2006....................	531	983	7,943	4,164	57,417
2007....................	746	1,000	12,703	4,371	67,523
2008....................	835	1,039	(1,776)	4,991	62,659
2009....................	608	1,090	(16,198)	4,983	43,207

(a) Includes the PSERS administrative expenses.

(b) PSERS adopted GASB Statement Nos. 25 and 26 retroactively to fiscal 1994. GASB Statement No. 25 requires the presentation of Plan Net Assets, which combines the cumulative residual effects of all System assets and current liabilities. System long-term actuarial liabilities are not presented on the System's basic financial statements, but instead are presented upon a supplementary schedule of funding progress. The presentations above include the effects of financial activity related to the administration of the PSERS healthcare insurance premium assistance program and Health Options Program. As required with the adoption of GASB Statement No. 26, separate financial presentation for these programs are made on PSERS financial statements. PSERS also adopted GASB Statement No. 34 for the fiscal year beginning July 1, 2001 that requires the presentation of Management's Discussion and Analysis as required supplementary information preceding the financial statement.

Table 22
State Employees' Retirement Fund
(In Millions)

Year Ended December 31	Employer Contributions	Employee Contributions	Net Investment Income[a]	Total Deductions From Plan Net Assets[b]	Plan Net Assets[c]
2004	$107	$310	$3,569	$1,881	$26,641
2005	148	306	3,623	1,966	28,752
2006	196	318	4,730	1,943	32,053
2007	244	334	5,247	2,361	35,516
2008	235	337	(11,061)	2,231	22,796

[a] Includes net appreciation (depreciation) in fair value of investments.
[b] Includes SERS administrative costs.
[c] Market value of investment assets. SERS adopted GASB Statement No. 25. GASB Statement No. 25 requires that investments be reported at their fair value. Also includes securities lending collateral pool pursuant to GASB Statement No. 28. In 2002, SERS adopted GASB Statement No. 34, which requires the presentation of Management Discussion and Analysis as required supplementary information preceding the financial statements.

Annual actuarial valuations are required by state law to determine the employer contribution rates necessary to accumulate sufficient assets and provide for payment of future benefits. The actuary's recommendations for employer contribution rates represent a funding plan for meeting current and future retirement obligations and are included in the enacted budget for the current fiscal year. The employer's contribution rate is computed to fully amortize the unfunded actuarial accrued liability of the respective plan as determined by its actuary. The unfunded accrued liability is a measure of the present value of benefits estimated to be due in the future for current employees given assumptions as to mortality, pay levels, retirement experience and employee turnover, less the present value of assets available to pay those benefits given assumptions of normal cost, supplemental annuity amortization, employer contribution levels and member contributions. The unfunded actuarial accrued liability for the most recent years with completed valuations based on the projected benefit method utilizing level percentage entry age and normal cost is shown in Table 23.

The Boards of PSERS and SERS periodically review their respective system's actuarial assumptions with their actuaries, investment consultants and staff and determine whether to make any changes to these assumptions going forward. Both Boards have recently adopted changes to their respective systems' actuarial assumptions. In January 2009, the PSERS Board of Trustees decreased PSERS' actuarial investment rate of return assumption from the previous rate of 8.5 percent to 8.25 percent effective for the June 30, 2008 actuarial valuation, and further decreased the rate of return assumption from 8.25 percent to 8.0 percent for the June 30, 2009 valuation. In April 2009, the Pennsylvania State Employees' Retirement Board decreased SERS' assumed rate of return on investments from 8.5 percent to 8.0 percent effective for the December 31, 2008 valuation. These changes reduce PSERS and SERS' investment return assumptions to the median assumption used by public pension funds nationally.

Table 23
Unfunded Actuarial Accrued Liability
2004-2008
(In Millions)

Valuation Year Ended	SERS[a]	PSERS[b]
2004.................................	$1,099	$5,028
2005.................................	2,058	10,007
2006.................................	2,216	12,163
2007.................................	914	9,438
2008.................................	3,801	9,924

[a] The fiscal year for SERS ends on December 31 of each year.
[b] The fiscal year for PSERS ends on June 30 of each year. The net increase in the unfunded actuarial accrued liability from 2004 to 2008 is attributable to pension plan modification under Act 9 of 2001 and Act 38 of 2002 and actual rates of return below the actuarially assumed rate.

For financial reporting purposes, both SERS and PSERS have adopted the Governmental Accounting Standards Board's Statement No. 25. This Statement requires a specific method of accounting and financial reporting for defined benefit pension plans. Among other things, the Statement requires a comparison of employer contributions to "annual required contributions" ("ARC') [ARC is also defined below]. Independently audited financial statements for both SERS and PSERS, as of December 31, 2008 and June 30, 2009, respectively, provide this comparison for each of the five fiscal years then ended.

Other Post-Employment Benefits

In addition to a defined benefit pension plan for State employees and employees of certain state-related organizations, the Commonwealth also provides health care plans for its eligible retirees and their qualifying dependents. These and similar plans are commonly referred to as "other post-employment benefits" or "OPEBs." The Commonwealth provides OPEB under two plans. The Retired Pennsylvania State Police Program (RPSPP) provides collectively bargained benefits to retired state enlisted members and their dependents. The Retired Employee Health Program (REHP) provides Commonwealth-determined benefits to other retired state employees and their dependents.

The General Assembly, based upon the Governor's request, annually appropriates funds to meet the obligation to pay current retiree health care benefits on a "pay-as-you-go" basis. Retiree health care expenditures are currently funded by the Commonwealth's General Fund (approximately 48 percent), Federal, Other and Special Funds. Commonwealth costs for such benefits totaled $521 million in fiscal year 2007, $565 million in fiscal year 2008 and $541 million in fiscal year 2009. Fiscal year 2010 employer contributions for retiree health care are budgeted at $585 million.

Summary of Commonwealth Actions to Control Retiree Health Care Costs

The following is a summary of key actions taken to date by the Commonwealth to contain the growth of the cost of health care/OPEB obligations for retirees:

1. REHP-eligible employees retiring after July 1, 2005 but prior to July 1, 2007 are required to annually pay 1 percent of their final annual gross salary as a contribution towards the cost of coverage.
2. REHP-eligible employees retiring on or after July 1, 2007 are required to annually pay an escalating percentage of their final annual gross salary as a contribution towards the cost of retiree health care coverage. The current contribution rate is 2 percent and will rise to 3 percent in October 2010. Any future collectively bargained increases in the employee contribution rate for active employees will also automatically cover all retirees who retire on or after July 1, 2007.
3. REHP-eligible employees retiring after July 1, 2004 will have their post employment benefits changed automatically as the benefits for active employees are updated and changed.
4. Effective June 30, 2008, active employees who retire after age 60 must have at least 20 years of service to be REHP-eligible (prior to June 30, 2008, eligibility was attained with 15 years of service).
5. The Commonwealth has received the Medicare Part D drug subsidy for its retiree health care plans since June 2006.
6. The REHP Plan was redesigned for prescription drugs (three-tiered formulary and utilization management) and medical benefits (increased co-payments for specialist and emergency room visits). Changes were effective in February 2008 and May 2008.
7. Effective July 1, 2007, State Police retirees are eligible to enroll in PPO plans.
8. State Police enlisted members who retired on or after April 21, 2005 will have a two-tiered co-payment structure and those retiring on or after July 1, 2007 will have a three-tiered formulary for their prescription drug plan.

9. Effective May 1, 2008, REHP Medicare supplemental coverage was replaced with a Medicare Private Fee-For-Service Plan. Effective January 1, 2010, this plan will be eliminated and retirees enrolled in this plan will have the option to enroll in a Medicare HMO or Medicare PPO.

Governmental Accounting Standards Board Statement #45

On June 21, 2004, the Governmental Accounting Standards Board (GASB) released its Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions ("Statement No. 45").* Statement No. 45 establishes standards for the measurement, recognition and display in the financial reports of state and local governments of obligations to pay OPEBs, when provided separately from a pension plan, expense or expenditures and related liabilities. Under Statement No. 45, governments are required to: (i) measure the costs of benefits, and recognize other post-employment benefits expenses, on the accrual basis of accounting during periods that employees are providing service; (ii) provide information about the actuarial liabilities of promised benefits associated with past service and whether, or to what extent, those benefits have been funded; and (iii) provide information useful in assessing potential demands on the employer's future cash flows. **Statement No. 45 reporting requirements was effective for the Commonwealth in fiscal year 2008, and therefore the Commonwealth's financial statements prior to the June 30, 2008 statement do not reflect these requirements.**

In 2006, the Commonwealth retained the Hay Group, a national employee benefits consulting firm, to provide actuarial services for the Commonwealth in preparation for GASB 45 implementation. The Hay Group collected substantial demographic, utilization and cost data and issued a preliminary actuarial valuation in February 2007 addressing the requirements of Statement No. 45.

In February 2008, the Hay Group updated its valuation to reflect changes made to the retiree health care plans, as well as updated claims costs and census data, and the February 2008 valuation adopted the level percentage of projected payroll amortization method. This updated valuation reflects the following changes from the initial February 2007 report to the Commonwealth's OPEB values:

1. The estimated unfunded actuarial accrued liability ("UAAL") as of June 30, 2007 decreased from $13.778 billion to $8.529 billion.
2. The estimated annual required contribution ("ARC") for the fiscal year ended June 30, 2008 was reduced from $1.125 billion to $705 million. The February 2007 valuation assumed no additional funding of the ARC beyond the "pay-as-you-go" amount for fiscal year 2008. The reduced ARC of $705 million in the February 2008 valuation was fully funded with "pay-as-you-go" funds and through a transfer of advance funding to an irrevocable trust or equivalent arrangement.
3. The estimated OPEB liability at June 30, 2008 decreased from $477 million to $0.

The Commonwealth had previously established restricted receipt accounts for the REHP and RPSPP to accumulate funds to pay retiree health care costs on a "pay-as-you-go" basis while maintaining an adequate reserve balance. In fiscal year 2008, the Commonwealth's Office of Budget entered into an Interagency Agreement with the independent Pennsylvania Department of Treasury to establish irrevocable trust equivalent arrangements (trust accounts) for the purpose of providing advance funding to both the REHP and RPSPP programs.

In fiscal year 2008, $60.0 million was transferred to the REHP Trust Account and $50.8 million was transferred to the RPSPP Trust Account from the pre-existing restricted receipt accounts. At the end of fiscal year 2008, the combined balance in the trust accounts and the restricted receipt accounts was $355 million. In December 2008, the Commonwealth changed its discount rate assumption related to the RPSPP for the fiscal year ended June 30, 2008. This change increased the RPSPP ARC from $115 million to $120 million, resulting in a revised combined ARC for both the REHP and the RPSPP of $710 million, $5 million higher than the February 2008 combined ARC of $705 million for the fiscal year ended June 30, 2008. As a result of the transfers to the trust accounts and the change in the discount rate assumption related to the RPSPP, the Commonwealth fully-funded the REHP ARC and funded over 95 percent of the RPSPP ARC for the fiscal year ended June 30, 2008.

During the fiscal year ended June 30, 2009, no additional contributions were made to either the REHP Trust Account or the RPSPP Trust Account. As of June 30, 2009, the combined balance in the trust accounts and the restricted receipt accounts was $417 million. The original Hay Group actuarial valuation for FYE June 30, 2009 (from February 2008) was updated to incorporate updated claims information, updated plan member census and a slower decline in the health care cost inflation rates from those included in the February 2008 valuation. Also, for the fiscal year ended June 30, 2009, the Commonwealth changed its discount rate assumptions for both the REHP (from 8.5 percent to 5.0 percent) and the RPSPP (from 6.2 percent to 5.0 percent).

In October 2009, the Hay Group issued its revised valuation for the REHP and the RPSPP for the fiscal year ended June 30, 2009. This revised valuation reflects the following to the Commonwealth's OPEB values:

1. The unfunded actuarial accrued liability (" UAAL") as of June 30, 2008 is $14.752 billion. The UAAL for the REHP consists of an actuarial accrued liability of $12.863 billion less $60 million of plan assets. The UAAL for the RPSPP consists of an actuarial accrued liability of $2.0 billion less $51 million of plan assets.
2. The annual required contribution ("ARC") for the fiscal year ending June 30, 2009 is $962 million. The REHP ARC was $819 million and the RPSPP ARC was $143 million.
3. The OPEB liability as of June 30, 2009 is $407 million consisting of $313 million for the REHP and $94 million for the RPSPP.

For the REHP, the ARC was $818.51 million and the amount contributed was $505.56 million, with a resulting REHP OPEB liability of $312.95 million as of June 30, 2009. For the RPSPP, the ARC was $143.39 million and the amount contributed was $54.57 million. In addition, when the beginning RPSPP OPEB liability of $5.5 million is included, the resulting RPSPP OPEB liability is $94.32 million as of June 30, 2009. On a combined basis, including both the REHP and the RPSPP, the ARC for the fiscal year ended June 30, 2009 is $961.90 million and the amount contributed is $560.13 million, resulting in an ending OPEB liability of $407.27 million as of June 30, 2009.

GOVERNMENT AUTHORITIES AND OTHER ORGANIZATIONS

Certain state-created organizations have statutory authorization to issue debt for which state appropriations to pay debt service thereon are not required. The debt of these organizations is funded by assets of, or revenues derived from, the various projects financed and is not a statutory or moral obligation of the Commonwealth. However, some of these organizations are indirectly dependent upon Commonwealth operating appropriations. In addition, the Commonwealth may choose to take action to financially assist these organizations. These organizations, their purposes and their outstanding debt, as computed by each organization, are as follows:

Delaware River Joint Toll Bridge Commission ("DRJTBC"). The DRJTBC, a public corporation of the Commonwealth and New Jersey, owns and operates bridges across the Delaware River. Debt service on bonds is paid from tolls and other revenues of the Commission. The DRJTBC had $449.8 million in bonds outstanding as of June 30, 2009.

Delaware River Port Authority ("DRPA"). The DRPA, a public corporation of the Commonwealth and New Jersey, operates several toll bridges over the Delaware River, and promotes the use of the Philadelphia-Camden port and promotes economic development in the port district. Debt service on bonds is paid from toll revenues and other revenues pledged by DRPA to repayment of bonds. The DRPA had $1,114.6 million in revenue bond debt outstanding as of June 30, 2009.

Pennsylvania Economic Development Financing Authority ("PEDFA"). The PEDFA was created in 1987 to offer pooled bond and other bond issues for both taxable and tax-exempt bonds on behalf of local industrial and commercial development authorities for economic development projects. Bonds may be secured by loan repayments and all other revenues of the PEDFA. The PEDFA had $1,905.0 million of debt outstanding as of June 30, 2009.

Pennsylvania Energy Development Authority ("PEDA"). The PEDA was created in 1982 to finance energy research projects, demonstration projects promoting the production or conservation of energy and the promotion, utilization and transportation of Pennsylvania energy resources. The authority's funding is from appropriations and project revenues. Debt service on bonds is paid from project revenues and other revenues pledged by PEDA to repayment of bonds. The PEDA had $34.5 million in bonds outstanding as of June 30, 2009.

Pennsylvania Higher Education Assistance Agency ("PHEAA"). The PHEAA makes or guarantees student loans to students or parents, or to lending institutions or post-secondary institutions. Debt service on the bonds is paid by loan interest and repayments and other agency revenues. The PHEAA had $10,194.3 million in bonds outstanding as of June 30, 2009.

Pennsylvania Higher Educational Facilities Authority ("PHEFA"). The PHEFA is a public corporation of the Commonwealth established to finance college facilities. As of June 30, 2009, the PHEFA had $5,888.5 million in revenue bonds and notes outstanding payable from the lease rentals or loan repayments of the projects financed. Some of the lessees or borrowers, although private institutions, receive grants and subsidies from the Commonwealth.

Pennsylvania Industrial Development Authority ("PIDA"). The PIDA is a public corporation of the Commonwealth established for the purpose of financing economic development. The PIDA had $385.9 million in revenue bond debt outstanding on June 30, 2009, to which all of its revenues are pledged.

Pennsylvania Infrastructure Investment Authority ("Pennvest"). Pennvest was created in 1988 to provide low-interest rate loans and grants for the purpose of constructing new and improving existing water supply and sewage disposal systems to protect the health and safety of the citizens of the Commonwealth and to promote economic development within the Commonwealth. Loans and grants are available to local governments and, in certain circumstances, to private companies. The Pennvest bonds are secured by principal repayments and interest payments on Pennvest loans. Pennvest had $35.3 million of revenue bonds outstanding as of June 30, 2009.

Pennsylvania Turnpike Commission ("PTC"). The PTC operates the Pennsylvania Turnpike System ("System"). Its outstanding indebtedness, $4,752.3 million as of June 30, 2009, is payable from the net revenues of the System, primarily toll revenues and rentals from leases and concessions or from certain taxes dedicated to the System.

State Public School Building Authority ("SPSBA"). The SPSBA finances public school projects and community colleges. Bonds issued by the SPSBA are supported by the lease rental payments or loan repayments made to the SPSBA by local school districts and the community colleges. A portion of the funds appropriated annually by the Commonwealth as aid to local school districts and community colleges may be used by them to pay a portion of such lease rental payments or loan repayments. The SPSBA had $2,265.1 million of revenue bonds outstanding as of June 30, 2009.

CITY OF PHILADELPHIA - PICA

The Pennsylvania Intergovernmental Cooperation Authority ("PICA") was created by Commonwealth legislation in 1991 to assist the City of Philadelphia, the Commonwealth's largest city, in remedying its fiscal emergencies. PICA is authorized to provide assistance through the issuance of funding debt and to make factual findings and recommendations to Philadelphia concerning its budgetary and fiscal affairs. This financial assistance has included grants used by the City for defeasance of certain City general obligation bonds, funding of capital projects and the liquidation of the cumulative general fund balance deficit of the City of Philadelphia as of June 30, 1992, of $224.9 million. At this time, Philadelphia is operating under a five-year fiscal plan approved by PICA on June 17, 2008.

No further bonds may be issued by PICA for the purpose of either financing capital projects or a deficit, as the authority for such bond issuance expired December 31, 1994. PICA's authority to issue debt for the purpose of financing a cash flow deficit expired on December 31, 1995. Its ability to refund existing outstanding debt is unrestricted. PICA had $557.7 million in special tax revenue bonds outstanding as of June 30, 2009. Neither the taxing power nor the credit of the Commonwealth is pledged to pay debt service on PICA's bonds.

LITIGATION

The Commonwealth's Office of Attorney General and Office of General Counsel have reviewed the status of pending litigation against the Commonwealth, its officers and employees, and have provided the following brief descriptions of certain cases affecting the Commonwealth.

In 1978, the General Assembly approved a limited waiver of sovereign immunity with respect to lawsuits against the Commonwealth. This cap would not apply to tax appeals such as Northbrook (now Allstate) as detailed below. Damages for any loss are limited to $250,000 for each person and $1,000,000 for each accident. The Supreme Court of Pennsylvania has held that this limitation is constitutional. Approximately 3,150 suits against the Commonwealth remain open. Tort claim payments for the departments and agencies, other than the Department of Transportation, are paid from departmental and agency operating and program appropriations. Tort claim payments for the Department of Transportation are paid from an appropriation from the Motor License Fund. The Motor License Fund tort claim appropriation for fiscal year 2009 is $20.0 million.

The Commonwealth also represents and indemnifies employees who have been sued under federal civil rights statutes for actions taken in good faith in carrying out their employment responsibilities. There are no caps on damages in civil rights actions. The Commonwealth's self insurance program covers damages in these cases up to $250,000 per incident. Damages in excess of $250,000 are paid from departmental and agency operating and program appropriations.

County of Allegheny v. Commonwealth of Pennsylvania

In December 1987, the Supreme Court of Pennsylvania held in *County of Allegheny v. Commonwealth of Pennsylvania* that the statutory scheme for county funding of the judicial system is in conflict with the Pennsylvania Constitution. However, the Supreme Court of Pennsylvania stayed its judgment to afford the General Assembly an opportunity to enact appropriate funding legislation consistent with its opinion and ordered that the prior system of county funding shall remain in place until this is done.

The Court appointed retired Justice Frank J. Montemuro, Jr. as special master to devise and submit a plan for implementation. The *Interim Report of the Master* recommended a four-phase transition to state funding of a unified judicial system, during each of which specified court employees would transfer into the state payroll system. Phase I recommended that the General Assembly provide for an administrative structure of local court administrators to be employed by the Administrative Office of Pennsylvania Courts, a state agency. Numbering approximately 165 people statewide, local court administrators are employees of the counties in which they work. On June 22, 1999, the Governor approved Act No. 1999-12, under which these approximately 165 county-level court administrators became employees of the Commonwealth. Act 12 also triggered the release of appropriations that had been made for this purpose in 1998 and 1999.

The remainder of Justice Montemuro's recommendation for later phases remains pending before the Supreme Court of Pennsylvania.

Recently the counties moved the Court to enforce the original order in the case. The Court has held argument on the motion and a decision is pending.

Northbrook Life Insurance Co. v. Commonwealth

This case is the lead case in potential litigation with the entire insurance industry that does business in Pennsylvania. Currently, the Commonwealth Court has docketed in excess of 40 cases representing 20 or more insurance companies. Dozens of additional cases are being held pending this litigation at the administrative boards.

The cases challenge the Department of Revenue's application of portions of the Life and Health Guarantee Association Act of 1982 (the "Act"). The Act establishes a funding mechanism to fulfill defaulted obligations of insurance companies under life and health insurance policies and annuities contracts to insured Pennsylvania residents. In accordance with this funding mechanism, other insurance companies are assessed to provide the funds due to Pennsylvania residents insured by insurance companies which have become insolvent or are otherwise in default to their insureds.

Because the assessed insurance companies are paying the insurance obligations of other companies, a provision was placed in the Act which allows assessed insurance companies to claim a credit against their gross premiums tax liability based on such assessments.

The assessments on each company are broken into various categories, including life insurance assessments, health insurance assessments, and annuity assessments, based on the type and amount of business each company transacts in Pennsylvania.

Life and health insurance premiums have always been subject to the premiums tax and there is no dispute that companies may claim credit for life and health assessments. Annuity considerations, however, were taxed for approximately a three-year period, 1992-1995. Some annuity considerations were subject to tax; others were not. After several changes of direction, the Department of Revenue decided to allow credits for assessments paid on taxable annuity considerations. Credits were not allowed for assessments paid on non-taxable annuities. There is no provision in the insurance law that restricts the credit to only the assessments paid on taxable annuities. Taxpayers want the credit for assessments paid on all annuities, both during the period that annuities were taxed and going forward.

On January 26, 2006, the *en banc* Court issued a conflicted decision in which the majority ruled for both parties. Both parties filed exceptions. The Court denied all exceptions and upheld its earlier decision. Northbrook filed an appeal to the Pennsylvania Supreme Court. The Supreme Court ruled in Northbrook's favor but only on a technicality and did not address the substantive findings of the Commonwealth Court. The Supreme Court's decision resulted in an approximately $7,000.00 credit for Northbrook.

Counsel have now selected the Allstate case to relitigate the issues involved. The case was briefed and argued before a panel of the Commonwealth Court on December 9, 2009. The Commonwealth is awaiting a decision. The principal focus of the new Allstate litigation will be the proportional part fraction which is multiplied by the assessments to determine the credit as interpreted by the Commonwealth Court. Potential tax refund exposure to the Commonwealth equals up to $150,000,000.

RATINGS

Moody's Investors Service ("Moody's") has assigned its municipal bond rating of "Aa2" to the Bonds, Standard and Poor's Ratings Services, a division of the McGraw-Hill Companies ("S&P") has assigned its municipal bond rating of "AA" to the Bonds, and Fitch Ratings ("Fitch") has assigned its municipal bond rating of "AA" to the Bonds. The ratings reflect only the views of the rating agencies.

The ratings are based upon current information furnished by the Commonwealth or obtained from other sources considered reliable by the rating agencies, which do not perform any audit in connection with any rating and may, on occasion, rely on unaudited financial information. Reference is made to the rating agencies' manuals for complete descriptions of their respective rating procedures and other rating categories, and to S&P's, Moody's and Fitch's discussions of the Commonwealth expected to be released in connection with their ratings.

A security rating is not a recommendation to buy, sell or hold securities. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely if, in the opinion of the rating agencies, circumstances warrant such revision or withdrawal. Any such downward revision or withdrawal could have an adverse effect on the marketability or market price of the Bonds. The Commonwealth has not undertaken any responsibility after issuance of the Bonds to assure the maintenance of the ratings, to oppose any revision or withdrawal of the ratings by S&P, Moody's or Fitch or to inform the holders of the Bonds of any such revision or withdrawal, except as set forth under "CONTINUING DISCLOSURE."

TAX MATTERS

FIRST SERIES A BONDS

Federal Tax Exemption – First Series A Bonds

The Internal Revenue Code of 1986, as amended (the "Code") contains provisions relating to the tax-exempt status of interest on obligations issued by governmental entities which apply to the First Series A Bonds. These provisions include, but are not limited to, requirements relating to the use and investment of the proceeds of the First Series A Bonds and the rebate of certain investment earnings derived from such proceeds to the United States Treasury Department on a periodic basis. These and other requirements of the Code must be met by the Commonwealth subsequent to the issuance and delivery of the First Series A Bonds in order for interest thereon to be and remain excludable from gross income for purposes of federal income taxation. The Commonwealth has covenanted to comply with all such requirements.

In the opinion of Bond Counsel, interest on the First Series A Bonds will be excluded from gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion of Bond Counsel is subject to the condition that the Commonwealth complies with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the First Series A Bonds in order that interest thereon continues to be excluded from gross income. The Commonwealth has covenanted to comply with all such requirements. Failure to comply with certain of such requirements could cause the interest on the First Series A Bonds to be includable in gross income retroactive to the date of issuance of the First Series A Bonds.

In the opinion of Bond Counsel, interest on the First Series A Bonds is not treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes, and is not included in adjusted current earnings under Section 56(g) of the Code when calculating corporate alternative minimum taxable income.

In addition to the matters addressed above, prospective purchasers of the First Series A Bonds should be aware that ownership of the First Series A Bonds may result in collateral tax consequences to certain taxpayers, including, but not limited to, foreign corporations, certain S corporations, recipients of social security and railroad retirement benefits, financial institutions and property or casualty insurance companies. Bond Counsel expresses no opinion regarding any other federal tax consequences relating to the First Series A Bonds or the receipt of interest thereon. Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the First Series A Bonds may affect the tax status of interest on the First Series A Bonds.

Original Issue Premium – First Series A Bonds

An amount equal to the excess of the initial public offering price of a First Series A Bond as shown on the inside cover hereof over its stated redemption price at maturity constitutes premium on such First Series A Bond. A purchaser of a First Series A Bond must amortize any premium over the term of such First Series A Bond using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the purchaser's basis in such First Series A Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or other disposition of such First Series A Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. **Purchasers of any First Series A Bonds which are issued at a premium, whether at the time of the initial issuance or subsequent thereto, should consult their own tax advisors with respect to the determination and treatment of premium.**

FIRST SERIES B BONDS

IRS Circular 230 Notice

The advice under the caption "FIRST SERIES B BONDS" concerning certain income tax consequences of the acquisition, ownership and disposition of the First Series B Bonds was written to support the promotion or marketing of the First Series B Bonds. To ensure compliance with requirements imposed by the Internal Revenue Service, Bond Counsel informs you that (i) any federal tax advice contained in this Official Statement (including any attachments) or in writings furnished by Bond Counsel to the Commonwealth is not intended to be used, and cannot be used by any bondholder, for the purpose of avoiding penalties that may be imposed on the bondholder under the Code, and (ii) the bondholder should seek advice based on the bondholder's particular circumstances from an independent tax advisor.

Build America Bonds

The First Series B Bonds are to be designated by the Commonwealth as Build America Bonds, and in connection with the issuance of the First Series B Bonds the Commonwealth will irrevocably elect to receive the credit pursuant to Section 54AA of the Code directly, all as authorized by The American Recovery and Reinvestment Act of 2009 (the "Recovery Act") and the applicable provisions of the Code. Consequently, interest on the First Series B Bonds is not excluded from a bondholder's federal gross income nor are bondholders entitled to claim any credit under Section 54AA of the Code with respect to the First Series B Bonds. Based on that designation and election, the expected status of the First Series B Bonds as Build America Bonds is for the Commonwealth's benefit, and the Commonwealth has no obligation to the bondholders or prospective purchasers of the First Series B Bonds to maintain the status of the First Series B Bonds as Build America Bonds.

Pursuant to the Recovery Act, to the extent the Commonwealth satisfies the conditions required for Build America Bond status, and based on the aforementioned election which the Commonwealth expects to make in connection with the issuance of the First Series B Bonds, the Commonwealth will receive cash subsidy payments from the United States Treasury. The Code imposes requirements on the First Series B Bonds that the Commonwealth must continue to meet after the First Series B Bonds are issued in order to receive the cash subsidy payments. These requirements generally involve the way that First Series B Bond proceeds must be invested and ultimately used. If the Commonwealth does not satisfy these requirements, the Commonwealth may not receive the cash subsidy payments. As a result of its election, holders of the First Series B Bonds are not entitled to claim or receive any federal tax credit relating to the First Series B Bonds, including any credit otherwise permitted under section 54AA of the Code.

In General – First Series B Bonds

The following is a summary of certain anticipated United States federal income tax consequences of the purchase, ownership and disposition of the First Series B Bonds. The summary is based upon the provisions of the Code, the regulations promulgated thereunder, and the judicial and administrative rulings and decisions now in effect, all of which are subject to change. The summary generally addresses First Series B Bonds which are held as capital assets, and does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances or certain types of investors subject to special treatment under the federal income tax laws, including but not limited to financial institutions, insurance companies, dealers in securities or currencies, persons holding such Bonds as a hedge against currency risks or as a position in a "straddle" for tax purposes, or persons whose functional currency is not the United States dollar. Potential purchasers of the First Series B Bonds should consult their own tax advisors in determining the federal, state or local tax consequences to them of the purchase, holding, and disposition of the First Series B Bonds.

Interest on the First Series B Bonds is not excluded from gross income for federal income tax purposes, and will therefore be fully subject to federal income taxation. Purchasers other than those who purchase First Series B Bonds in the initial offering at their principal amounts will be subject to federal income tax accounting rules affecting the timing and/or characterization of payments received with respect to such Bonds. In general, interest paid on the First Series B Bonds and recovery of accrued original issue and market discount, if any, will be treated as ordinary income to an owner of First Series B Bonds and, after adjustment for the foregoing, principal payments will be treated as a return of capital.

Market Discount – First Series B Bonds

Any owner who purchases a First Series B Bond at a price which includes market discount in excess of a prescribed de minimis amount (*i.e.*, at a purchase price that is less than its adjusted issue price in the hands of an original owner) will be required to recharacterize all or a portion of the gain as ordinary income upon receipt of each scheduled or unscheduled principal payment or upon other disposition. In particular, such owner will generally be required either (a) to allocate each such principal payment to accrued market discount not previously included in income and to recognize ordinary income to that extent and to treat any gain upon sale or other disposition of such a First Series B Bond as ordinary income to the extent of any remaining accrued market discount (under this caption) or (b) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such owner on or after the first day of the taxable year to which such election applies.

The Code authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history of the Tax Reform Act of 1986 will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest.

An owner who acquires a First Series B Bond at a market discount also may be required to defer, until the maturity date of such First Series B Bonds or the earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the owner paid or accrued during the taxable year on indebtedness incurred or maintained to purchase or carry a First Series B Bond in excess of the aggregate amount of interest (including original issue discount) includable in such owner's gross income for the taxable year with respect to such First Series B Bond. The amount of such net interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the First Series B Bond for the days during the taxable year on which the owner held the First Series B Bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the First Series B Bond matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the bondholder elects to include such market discount in income currently as described above.

Bond Premium – First Series B Bonds

A purchaser who purchases a First Series B Bond at a cost greater than its then principal amount (or, in the case of a First Series B Bond issued with original issue premium, at a price in excess of its adjusted issue price) will have amortizable bond premium. If the holder elects to amortize the premium under Section 171 of the Code (which election will apply to all bonds held by the holder on the first day of the taxable year to which the election applies, and to all bonds thereafter acquired by the holder) such a purchaser must amortize the premium using constant yield principles based on the purchaser’s yield to maturity. Amortizable bond premium is generally treated as an offset to interest income, and a reduction in basis is required for amortizable bond premium that is applied to reduce interest payments. Purchasers of any First Series B Bonds who acquire such Bonds at a premium (or with acquisition premium) should consult with their own tax advisors with respect to the determination and treatment of such premium for federal income tax purposes and with respect to state and local tax consequences of owning such First Series B Bonds.

Sale or Redemption - First Series B Bonds

A bondholder’s tax basis for a First Series B Bond is the price such owner pays for the First Series B Bond plus the amount of any original issue discount and market discount previously included in income, reduced on account of any payments received (other than “qualified periodic interest” payments) and any amortized bond premium. Gain or loss recognized on a sale, exchange or redemption of a First Series B Bond, measured by the difference between the amount realized and the First Series B Bond basis as so adjusted, will generally give rise to capital gain or loss if the First Series B Bond is held as a capital asset (except as discussed above under “Market Discount”). The defeasance of First Series B Bonds may result in a deemed sale or exchange of such Bonds under certain circumstances; owners of such Bonds should consult their tax advisors as to the Federal income tax consequences of such an event.

Backup Withholding – First Series B Bonds

A bondholder may, under certain circumstances, be subject to “backup withholding” (currently the rate of this withholding tax is 28%, but may change in the future) with respect to interest or original issue discount on the First

Series B Bonds. This withholding generally applies if the owner of a First Series B Bond (a) fails to furnish its taxpayer identification number to the Commonwealth or other payor; (b) furnishes an incorrect taxpayer identification number to the Commonwealth or other payor; (c) fails to report properly interest, dividends or other “reportable payments” as defined in the Code; or (d) under certain circumstances, fails to provide the Commonwealth or other payor with a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that the holder is not subject to backup withholding. Backup withholding will not apply, however, with respect to certain payments made to bondholders, including payments to certain exempt recipients (such as certain exempt organizations) and to certain Nonresidents (as defined below). Owners of the First Series B Bonds should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining the exemption.

The amount of “reportable payments” for each calendar year and the amount of tax withheld, if any, with respect to payments on the First Series B Bonds will be reported to the bondholders and to the Internal Revenue Service.

Nonresident Borrowers – First Series B Bonds

Under the Code, interest and original issue discount income with respect to First Series B Bonds held by nonresident alien individuals, foreign corporations or other non-United States persons (“Nonresidents”) generally will not be subject to the United States withholding tax (or backup withholding) if the Commonwealth (or other person who would otherwise be required to withhold tax from such payments) is provided with an appropriate statement that the beneficial owner of the First Series B Bond is a Nonresident. Notwithstanding the foregoing, if any such payments are effectively connected with a United States trade or business conducted by a Nonresident bondholder, they will be subject to regular United States income tax, but will ordinarily be exempt from United States withholding tax.

STATE TAX EXEMPTION OF THE BONDS

In the opinion of Bond Counsel, under the existing laws of the Commonwealth, the interest on the Bonds is free from Pennsylvania personal income taxation and Pennsylvania corporate net income taxation, but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the Bonds or the interest thereon. Profits, gains or income derived from the sale, exchange or other disposition of the Bonds are subject to state and local taxation within the Commonwealth.

POSSIBLE CHANGES IN LAW

This summary is based on laws, regulations, rulings and decisions now in effect, all of which may change. Any change could apply retroactively and could affect the continued validity of this summary. **Prospective purchasers should consult their tax advisors about the consequences of purchasing or holding the Bonds.**

UNDERWRITING

After competitive bidding on January 13, 2010, the Bonds were awarded to a selling group represented by Barclays Capital Inc. (the “Underwriters”) for a purchase price of $940,675,680.10 which is equivalent to the principal amount of the Bonds, less underwriters’ discount of $3,663,303.75 plus original issue premium of $40,675,680.10. The Underwriters have supplied the public offering yields and prices of the Bonds shown on the front cover hereof. If all of the Bonds are resold to the public at such yields, the underwriters’ discount will approximate 0.4070338 percent of the aggregate principal amount of the Bonds. The Underwriters may change the public offering yields from time to time.

LEGALITY FOR INVESTMENT

Under the Pennsylvania Probate, Estates and Fiduciaries Code, the Bonds are authorized investments for fiduciaries, as defined in that code, within the Commonwealth of Pennsylvania. The Bonds are legal investments for Pennsylvania savings banks, banks, bank and trust companies, and insurance companies and are acceptable as security for deposits of funds of the Commonwealth. The Bonds are eligible for purchase, dealing in, underwriting and unlimited holding by national banking associations pursuant to regulations promulgated by the Comptroller of the Currency set forth in the Code of Federal Regulations, Title 12—Banks and Banking, Sections 1.3(c) and 1.4.

FINANCIAL ADVISOR

Public Financial Management Inc., Philadelphia, Pennsylvania, is serving as independent Financial Advisor to the Commonwealth with respect to the Bonds (the "Financial Advisor"). The Financial Advisor's fees in connection with the issuance of the Bonds are expected to be paid from Bond proceeds.

LEGAL MATTERS

All legal matters incident to the authorization and issuance of the Bonds are subject to the approval of the Attorney General of the Commonwealth of Pennsylvania, The Honorable Tom Corbett, and of Obermayer Rebmann Maxwell & Hippel LLP, Bond Counsel. A copy of the opinion of Bond Counsel will accompany the Bonds delivered to DTC. Copies of the opinion of the Attorney General, together with additional copies of the opinion of Bond Counsel, will be available at the time of delivery of the Bonds. Proposed forms of these opinions are included as Appendices F and G respectively.

ADDITIONAL INFORMATION

Periodic public reports relating to the financial condition of the Commonwealth are prepared by the Office of the Budget. These reports and additional information may be obtained upon request from the office of the Secretary of the Budget, Ms. Mary Soderberg, Attn.: Mr. Richard Dreher, 7th Floor, Bell Tower, 303 Walnut Street, Harrisburg, Pennsylvania 17101-1808 (Telephone (717) 787-7342). The annual Comprehensive Annual Financial Report ("CAFR"), a summary of the enacted fiscal year 2010 budget and certain other information are available in the Budget and Financial Reports section of the Office of the Budget's web site, http://www.budget.state.pa.us.

CONTINUING DISCLOSURE

The Commonwealth will execute a written agreement (the "Continuing Disclosure Agreement") for the benefit of the beneficial owners of the Bonds in order to assist the Underwriters in meeting the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission. The Continuing Disclosure Agreement will require the Commonwealth to:

(i) File not later than 240 days following the end of each of the Commonwealth's fiscal years, Annual Financial Statements and Annual Operating Data, as defined below, with the Municipal Securities Rulemaking Board (the "MSRB");

(ii) File in a timely manner to the MSRB notice of certain specified events listed below; and

(iii) File with either the MSRB notice of any failure of the Commonwealth to file the information required by (i) above.

Annual Financial Information. It is expected that the financial statements to be filed annually as provided by (i) above will be audited financial statements. The Continuing Disclosure Agreement, however, permits the filing of unaudited financial statements if audited financial statements are not available by the 240-day deadline, with audited financial statements to be filed as soon as they are available. The Annual Operating Data will be operating data of the type contained in this Official Statement in the following tables:

Tables 5 through 12 under the heading "COMMONWEALTH FINANCIAL PERFORMANCE";
Tables 15 through 18 under the heading "OUTSTANDING INDEBTEDNESS OF THE COMMONWEALTH"; and
Tables 20 through 23 under the heading "OTHER STATE-RELATED OBLIGATIONS."

If any of the tables listed above reflect information that is no longer calculated and available or relevant because of changes in operations, the Commonwealth will provide notice of such change in the first annual filing of Annual Operating Data after such changes are undertaken. The format of the tables also may be altered.

Event Disclosure. The Continuing Disclosure Agreement requires the Commonwealth to provide timely notice to the MSRB of the following events if such events are material with respect to the Bonds:

* principal and interest payment delinquencies;
* nonpayment related defaults;
* unscheduled draws on debt service reserves reflecting financial difficulties;
* unscheduled draws on credit enhancements reflecting financial difficulties;
* substitution of credit or liquidity providers, or their failure to perform;
* adverse tax opinions or events affecting the tax-exempt status of the Bonds;
* modifications to the rights of holders of the Bonds;
* Bond calls;
* defeasances;
* release, substitution, or sale of property securing repayment of the Bonds; and
* rating changes.

The eleven events listed above are specified by the Rule but some of them may not be relevant to the Bonds.

Limitations, Remedy and Amendments. The Continuing Disclosure Agreement requires the Commonwealth to provide only limited information at limited times, and such information may not include all information necessary to determine the value of the Bonds at any time. The Commonwealth may also make other information available on a voluntary basis, but it is not contractually obligated to do so. See "ADDITIONAL INFORMATION" herein for the availability of other information from the Commonwealth's Office of the Budget.

The sole and exclusive remedy for any breach by the Commonwealth of its obligations under the Continuing Disclosure Agreement is an action to compel specific performance by the Commonwealth of its obligations. No assurance can be provided as to the outcome of any such proceeding. A breach by the Commonwealth of its obligations under the Continuing Disclosure Agreement does not constitute a default under the Bonds.

The Commonwealth reserves the right to amend the Continuing Disclosure Agreement consistent with the provisions of the Rule (or any successor legal requirements) as then in effect.

The Commonwealth has complied in all material respects with its prior continuing disclosure obligations.

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Reference is made to Commission Release No. 34-59062, dated December 8, 2008 (the "Release"), relating to the MSRB's Electronic Municipal Market Access system ("EMMA") (http://www.emma.msrb.org) for municipal securities disclosure that became effective on July 1, 2009. To the extent applicable to its obligations pursuant to the Continuing Disclosure Agreement, the Commonwealth shall comply with the Release and with EMMA.

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The execution of this Official Statement has been authorized in the Resolutions.

/S/ EDWARD G. RENDELL
EDWARD G. RENDELL, Governor

/S/ ROBERT M. MCCORD
ROBERT M. McCORD, State Treasurer

/S/ JACK WAGNER
JACK WAGNER, Auditor General

APPENDIX A

CERTIFICATE OF THE AUDITOR GENERAL
Pursuant to
ARTICLE VIII, SECTION 7(a)(4) and (c)
of the
CONSTITUTION OF PENNSYLVANIA
and
Section 304 of the Capital Facilities Debt Enabling Act

To the Governor and the General Assembly:

I, Jack Wagner, Auditor General of the Commonwealth of Pennsylvania, pursuant to the Pennsylvania Constitution Article VIII, (Section 7(a)(4) and Section 304 of Capital Facilities Debt Enabling Act (Act 1 of 1999) certify as follows:

	The average annual tax revenues deposited in all funds in the five fiscal years ended preceding the date of August 31, 2009	$ 32,044,066,363
(i)	The amount of outstanding net debt as of the end of the preceding fiscal year	$ 7,650,495,379
(ii)	The amount of such net debt as of August 31, 2009.......................	$ 7,497,271,800
(iii)	The difference between the limitation upon all net debt outstanding as provided in Article VIII, Section 7 (a) (4) of the Constitution of Pennsylvania and the amount of such net debt as of the date of August 31, 2009	$ 48,579,844,336
(iv)	The amount of such debt scheduled to be repaid during the remainder of the current fiscal year	$ 376,265,171
(v)	The amount of debt authorized by law to be issued, but not yet incurred	$ 75,646,406,468
(vi)	The amount of outstanding obligations excluded from outstanding debt as self sustaining pursuant to Article VIII, Section 7(c)(1), (2) and (3) of the Constitution of Pennsylvania	$ 8,246,138,759

IN TESTIMONY WHEREOF, I have set my hand and affixed the seal of the Auditor General, this 31st day of August 2009.

/s/Jack Wagner
JACK WAGNER
Auditor General
Commonwealth of Pennsylvania

(Seal)

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SELECTED DATA ON THE COMMONWEALTH OF PENNSYLVANIA

General

The Commonwealth of Pennsylvania is one of the most populous states, ranking sixth behind California, Texas, New York, Florida, and Illinois. Pennsylvania is an established state with a diversified economy. Pennsylvania had been historically identified as a heavy industrial state. That reputation has changed over the last thirty years as the coal, steel and railroad industries declined. The Commonwealth's business environment readjusted with a more diversified economic base. This economic readjustment was a direct result of a long-term shift in jobs, investment, and workers away from the northeast part of the nation. Currently, the major sources of growth in Pennsylvania are in the service sector, including trade, medical, health services, education and financial institutions.

Pennsylvania's agricultural industries remain an important component of the Commonwealth's economic structure, accounting for more than $5.8 billion in crop and livestock products annually. In 2008, agribusiness and food related industries reached export sales surpassing $1.5 billion in economic activity. Over 58,000 farms form the backbone of the State's agricultural economy. Farmland in Pennsylvania includes over four million acres of harvested cropland and three million acres of pasture and farm woodlands - nearly one-third of the Commonwealth's total land area. Agricultural diversity in the Commonwealth is demonstrated by the fact that Pennsylvania ranks among the top ten states in the production of a variety of agricultural products. Agriculture exports have grown by more than 5.3% since 2003.

Pennsylvania's extensive public and private forests provide a vast source of material for the lumber, furniture, and paper products industries. The forestry and related industries accounts for 1.5% of employment with economic activity of nearly $5 billion in sales of which $984 million is from international trade. Additionally, the Commonwealth derives a good water supply from underground sources, abundant rainfall, and a large number of rivers, streams, and lakes. Other natural resources include major deposits of coal, petroleum, and natural gas. Annually, about 75 million tons of anthracite and bituminous coal, 168 billion cubic feet of natural gas, and about 3.6 million barrels of oil are extracted from Pennsylvania.

Pennsylvania is a Mid-Atlantic state within easy reach of the populous eastern seaboard and, as such, is the keystone to the Midwest. A comprehensive transportation grid enhances the Commonwealth's strategic geographic position. The Commonwealth's water systems afford the unique feature of triple port coverage, a deep-water port at Philadelphia, a Great Lakes port at Erie and an inland water port at Pittsburgh. Between air, rail, water, and road, Pennsylvania is easily accessible for both inter and intra state trade and commerce.

Population

The Commonwealth is highly urbanized. Of the Commonwealth's 2008 mid-year population estimate, 79 percent resided in the 15 Metropolitan Statistical Areas ("MSAs") of the Commonwealth. The largest MSAs in the Commonwealth are those that include the cities of Philadelphia and Pittsburgh, which together contain almost 44 percent of the State's total population. The population of Pennsylvania, 12.4 million people in 2008, according to the U.S. Bureau of the Census, represents a population growing slower than the nation with a higher portion than the nation or the region comprised of persons 45 or over. The following tables present the population trend from 1999 to 2008 and the age distribution of the population for 2008.

Population Trends
Pennsylvania, Middle Atlantic Region and the United States
1999-2008

	Total Population In Thousands			Total Population as a % of 1997 base		
As of July 1	PA	Middle Atlantic Region[a]	U.S.	PA	Middle Atlantic Region[a]	U.S.
1999	11,994	38,334	272,690	100%	100%	100%
2000	12,285	39,714	282,171	102	104	103
2001	12,284	39,863	285,039	102	104	105
2002	12,298	40,007	287,726	102	104	106
2003	12,317	40,138	290,210	103	105	106
2004	12,335	40,257	292,892	103	105	107
2005	12,351	40,322	295,560	103	105	108
2006	12,388	40,395	298,362	103	105	109
2007	12,419	40,502	301,290	103	106	110
2008	12,448	40,621	304,059	104	106	112

[a] Middle Atlantic Region: Pennsylvania, New York, New Jersey
Source: U.S. Department of Commerce, Bureau of the Census

Population by Age Group — 2008
Pennsylvania, Middle Atlantic Region and the United States

Age	Pennsylvania	Middle Atlantic Region[a]	United States
Under 5 years	5.9 %	6.1 %	6.9 %
5-24 years	25.9	26.3	27.2
25-44 years	25.5	27.0	27.4
45-64 years	27.4	26.7	25.7
65 years and over............	15.3	13.9	12.8

[a] Middle Atlantic Region: Pennsylvania, New York, New Jersey.
Source: U.S. Department of Commerce, Bureau of the Census

Employment

Non-agricultural employment in Pennsylvania over the 10 years ending in 2008 increased at an average annual rate of 0.4 percent compared with a 0.4 percent rate for the Middle Atlantic region and 0.7 percent rate for the U.S. The following table shows employment trends from 1999 through 2008.

Non-Agricultural Establishment Employment Trends
Pennsylvania, Middle Atlantic Region and the United States
1999-2008

	Total Establishment Employment In Thousands			Total Establishment Employment as a % of 1999 base		
Calendar Year	PA	Middle Atlantic Region[a]	US	PA	Middle Atlantic Region[a]	US
1999	5,586	17,946	128,993	100 %	100 %	100 %
2000	5,691	18,324	131,785	102	102	102
2001	5,683	18,274	131,826	102	102	102
2002	5,641	18,087	130,341	101	101	101
2003	5,611	18,000	129,999	100	100	100
2004	5,644	18,108	131,435	101	101	102
2005	5,702	18,278	133,703	102	102	104
2006	5,756	18,446	136,086	103	103	105
2007	5,798	18,611	137,598	104	104	106
2008	5,801	18,654	137,066	104	104	106

[a] Middle Atlantic Region: Pennsylvania, New York, New Jersey.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

Non-manufacturing employment in Pennsylvania has increased in recent years and reached 88.9 percent of total employment by 2008. Consequently, manufacturing employment constitutes a diminished share of total employment within the Commonwealth. Manufacturing, contributing 11.1 percent of 2008 non-agricultural employment, has fallen behind the services sector, the trade sector and the government sector as the 4th largest single source of employment within the Commonwealth. In 2008, the services sector accounted for 46.1 percent of all non-agricultural employment while the trade sector accounted for 15.3 percent. The following table shows trends in employment by sector for Pennsylvania from 2004 through 2008.

Non-Agricultural Establishment Employment by Sector
Pennsylvania
2004-2008
(In Thousands)

	CALENDAR YEAR									
	2004		2005		2006		2007		2008	
	Employees	%	Employees	%	Employees	%	Employees	%	Employees	%
Manufacturing:										
Durable………………	412.2	7.3	412.9	7.2	414.4	7.2	407.4	7.0	400.0	6.9
Non-Durable…………	278.5	4.9	266.5	4.7	256.0	4.4	271.7	4.7	244.2	4.2
Total Manufacturing[d]……	690.7	12.2	679.4	11.9	670.4	11.6	679.1	11.7	644.2	11.1
Non-Manufacturing:										
Trade[a]………………	1,113.6	19.7	1,120.3	19.6	1,125.8	19.6	1,134.2	19.6	887.7	15.3
Finance[b]……………	336.2	6.0	335.7	5.9	335.0	5.8	332.8	5.7	330.4	5.7
Services……………..	2,269.6	40.2	2,321.1	40.7	2,364.4	41.1	2,380.0	41.0	2,674.1	46.1
Government…………	744.4	13.2	745.1	13.1	745.6	13.0	749.4	12.9	749.4	12.9
Utilities[c]…………….	220.8	3.9	225.2	3.9	233.5	4.1	239.7	4.1	237.8	4.1
Construction…………	250.2	4.4	255.7	4.5	261.0	4.5	262.3	4.5	255.8	4.4
Mining……………….	18.7	0.3	19.7	0.3	20.4	0.4	20.4	0.4	21.5	0.4
Total Non-Manufacturing[d]	4,953.5	87.8	5,022.8	87.9	5,085.7	88.4	5,118.8	88.3	5,156.7	88.9
Total Employees[d][e]	5,644.2	100.0	5,702.2	99.8	5,756.1	100.0	5,797.9	100.0	5,800.9	100.0

[a] Wholesale and retail trade.
[b] Finance, insurance and real estate.
[c] Includes transportation, communications, electric, gas and sanitary services.
[d] Discrepancies occur due to rounding.
[e] Does not include workers involved in labor-management disputes.
Source: PA Bureau of Labor & Industry

The following table presents the percentages of non-agricultural employment in various sectors in Pennsylvania and the United States in 2008.

Non-Agricultural Establishment Employment by Sector
Pennsylvania and the United States

	2008 Calendar Year	
	Pennsylvania	United States
Manufacturing.......................................	11.1%	9.8 %
Trade[a]..	15.3	15.5
Finance[b]	5.7	5.9
Services...	46.1	40.7
Government..	12.9	16.4
Utilities[c]	4.1	5.9
Construction...	4.4	5.3
Mining...	0.4	0.5
Total[d]	100.0 %	100.0 %

[a] Wholesale and retail trade.
[b] Finance and insurance.
[c] Includes transportation, communications, electric, gas and sanitary services.
[d] Discrepancies occur due to rounding.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

Within the manufacturing sector of Pennsylvania's economy, which now accounts for less than one-eighth of total non-agricultural employment in Pennsylvania, the fabricated metals industries employed the largest number of workers. Employment in fabricated metals industries was 14.2 percent of Pennsylvania manufacturing employment but only 1.5 percent of total Pennsylvania non-agricultural employment in 2008. The following table shows trends in manufacturing employment by industry for Pennsylvania from 2004 through 2008.

Manufacturing Establishment Employment by Industry
Pennsylvania
2004-2008
(In Thousands)

	CALENDAR YEAR									
	2004		2005		2006		2007		2008	
	Employees	%	Employees	%	Employees	%	Employees	%	Employees	%
Durable Goods:										
Primary Metals……………..	43.1	6.2	43.0	6.3	43.5	6.5	42.6	6.5	41.6	6.5
Fabricated Metals…………..	88.7	12.8	90.1	13.3	90.9	13.6	91.5	13.9	91.7	14.2
Machinery (excluding electrical)….	54.8	7.9	55.6	8.2	57.0	8.5	56.8	8.6	56.8	8.8
Electrical Equipment………..	25.6	3.7	25.8	3.8	26.7	4.0	26.9	4.1	27.3	4.2
Transportation Equipment….	42.7	6.2	43.7	6.4	44.3	6.6	43.5	6.6	43.5	6.8
Furniture Related Products…..	24.4	3.5	24.0	3.5	23.7	3.5	21.7	3.3	20.4	3.2
Other Durable Goods………	132.9	19.2	130.7	19.2	128.3	19.1	124.4	18.9	118.7	18.4
Total Durable Goods[a]…...	412.2	59.5	412.9	60.8	414.4	61.8	407.4	61.8	400.0	62.1
Non-Durable Goods:										
Pharmaceutical/Medicine…	22.6	3.3	21.9	3.2	21.9	3.3	22.0	3.3	22.3	3.5
Food Products……………..	72.6	10.5	70.9	10.4	68.9	10.3	69.0	10.5	67.6	10.5
Chemical Products………..	52.7	7.6	49.2	7.2	46.7	7.0	46.4	7.0	45.7	7.1
Printing and Publishing……	37.7	5.5	37.1	5.5	36.4	5.4	35.2	5.3	33.2	5.2
Plastics/Rubber Products…….	40.9	5.9	40.2	5.9	39.8	5.9	39.5	6.0	38.9	6.0
Other Non-Durable Goods…	52.0	7.5	47.2	6.9	42.3	6.3	39.6	6.0	36.5	5.7
Total Non-Durable Goods[a]	278.5	40.3	266.5	39.2	256.0	38.2	251.7	38.2	244.2	37.9
Total Manufacturing Employees[a]……………	690.7	100.0	679.4	100.0	670.4	100.0	659.1	100.0	644.2	100.0

[a] Discrepancies occur due to rounding

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Unemployment

Pennsylvania's annual average unemployment rate was equivalent to the national average throughout the 2000's. Slower economic growth caused the unemployment rate in the Commonwealth to rise to 5.7 percent in 2003. The resumption of faster economic growth resulted in a decrease in the Commonwealth's annual unemployment rate to 4.4 percent in 2007. As of October 2009, the most recent month for which figures are available, Pennsylvania had a seasonally adjusted annual unemployment rate of 8.8 percent. The following table represents the annual non-adjusted unemployment rate in Pennsylvania, the Middle Atlantic Region, and the United States from 1999 through 2008.

Annual Average Unemployment Rate
Pennsylvania, Middle Atlantic Region and the United States
1999-2008

Calendar Year	Pennsylvania	Middle Atlantic Region[a]	United States
1999	4.4	4.8	4.2
2000	4.2	4.2	4.0
2001	4.8	4.7	4.7
2002	5.6	5.9	5.8
2003	5.7	6.1	6.0
2004	5.4	5.5	5.5
2005	5.0	4.9	5.1
2006	4.5	4.6	4.6
2007	4.4	4.4	4.6
2008	5.4	5.4	5.8

[a] Middle Atlantic Region: Pennsylvania, New York, New Jersey.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

The following table presents the thirty largest non-governmental employers in Pennsylvania:

Commonwealth of Pennsylvania
Thirty Largest
Non-Governmental Employers
March 2008

Company	Rank	Company	Rank
Wal-Mart Associates	1	Western Pennsylvania Hospital	16
University of Pennsylvania	2	K-MART Corporation	17
Pennsylvania State University	3	The Children Hospital of Philadelphia	18
Giant Food Stores	4	Heartland Employment Services	19
United Parcel Service Inc	5	Comcast Cablevision Corp	20
UPMC Presbyterian	6	Pennsylvania Blue Shield	21
University of Pittsburgh	7	Thomas Jefferson University Hospital	22
Weis Markets Inc	8	Verizon Pennsylvania Inc.	23
Merck & Co Inc	9	ACME Markets Inc	24
Giant Eagle Inc.	10	US Airways Inc	25
Lowe's Home Centers Inc	11	Temple University	26
Home Depot USA Inc.	12	Sears Roebuck & Co	27
PNC Bank NA	13	GMR Restaurants of Pennsylvania Inc	28
Vanguard Group Inc	14	Eat'n Park Restaurants Inc	29
Target Div of Target Corp	15	Milton S. Hershey Hospital	30

Source: Pennsylvania Department of Labor, Office of Employment Security.

Personal Income

Personal income in the Commonwealth for 2008 is $501.2 billion, an increase of 3.9 percent over the previous year. During the same period, national personal income increased at a rate of 3.8 percent. Based on the 2008 personal income estimates, per capita income for 2008 is at $40,265 in the Commonwealth compared to per capita income in the United States of $39,751. The following tables represent annual personal income and per capita income from 1999 through 2008.

Personal Income
Pennsylvania, Mideast Region and the United States
1999-2008

	Total Personal Income Dollars in Millions			Total Personal Income As a % of 1999 base		
Year	**PA**	**Mideast Region[(a)]**	**US.[b)]**	**PA**	**Mideast Region[(a)]**	**US**
1999	$ 342,611	$1,467,261	$ 7,796,137	100 %	100 %	100 %
2000	364,838	1,580,733	8,422,074	106	108	108
2001	372,339	1,627,895	8,716,992	109	111	112
2002	382,251	1,648,005	8,872,871	111	112	114
2003	393,908	1,690,345	9,150,320	115	115	117
2004	413,855	1,794,306	9,711,363	121	122	125
2005	429,522	1,890,644	10,252,973	125	129	132
2006	455,884	2,020,419	10,978,053	133	137	141
2007	481,806	2,143,472	11,634,322	140	146	149
2008	501,225	2,225,405	12,086,534	146	152	155

[(a)] Mideast Region: Pennsylvania, New York, New Jersey, Maryland, District of Columbia, and Delaware.
[(b)] Sum of States.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

Per Capita Income
Pennsylvania, Mideast Region and the United States
1999-2008

	Per Capita Income			As % of US	
Calendar Year	**PA**	**Mideast Region[(a)]**	**U.S.**	**PA**	**Mideast Region[(a)]**
1999	$ 27,937	$ 31,824	$ 27,939	100 %	114 %
2000	29,698	34,080	29,847	100	114
2001	30,310	34,925	30,582	100	114
2002	31,080	35,191	30,838	101	114
2003	31,979	35,946	31,530	101	114
2004	33,550	38,014	33,157	101	115
2005	34,774	39,955	34,690	100	115
2006	36,800	42,595	36,794	100	116
2007	38,793	45,058	38,615	100	117
2008	40,265	46,635	39,751	101	117

[(a)] Mideast Region: Pennsylvania, New York, New Jersey, Maryland, District of Columbia, and Delaware.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

The following table presents growth rates in personal income and selected components of personal income for Pennsylvania, the Mideast Region and the United States from 2004 through 2008.

Annual Growth Rates
Personal Income and Selected Components of Personal Income
Pennsylvania, Mideast Region and the United States

Calendar Year	Pennsylvania	Mideast Region[a]	United States
Total Personal Income			
2004	5.1%	6.1 %	6.1%
2005	3.7	5.3	5.5
2006	6.1	6.8	7.1
2007	5.6	6.1	6.0
2008	4.0	3.8	3.8
Manufacturing			
2004	2.6%	3.3%	3.4%
2005	0.6	0.2	1.1
2006	5.1	4.8	5.8
2007	0.9	1.3	1.7
2008	1.4	0.6	-0.2
Trade[b]			
2004	3.6%	3.5%	4.4%
2005	4.9	4.7	5.7
2006	3.6	3.8	4.9
2007	3.9	4.1	4.3
2008	2.6	1.3	1.2
Finance[c]			
2004	9.6%	10.1%	8.1%
2005	1.9	5.9	5.4
2006	5.4	13.5	8.8
2007	4.3	10.7	6.3
2008	3.6	1.8	1.4
Services			
2004	8.4%	8.1%	8.2%
2005	7.8	8.3	9.4
2006	7.6	7.5	8.3
2007	7.9	7.3	7.3
2008	5.6	6.7	6.9
Utilities[d]			
2004	1.3%	1.9%	6.5%
2005	-2.2	-1.2	-0.9
2006	0.6	6.0	8.1
2007	9.6	6.7	6.6
2008	6.0	4.4	5.3
Construction			
2004	6.6%	6.9%	8.4%
2005	7.1	6.5	9.3
2006	5.1	5.9	7.4
2007	0.3	1.7	-0.2
2008	-2.3	-0.2	-4.2
Mining			
2004	16.6%	17.9%	18.1%
2005	10.3	12.4	15.9
2006	16.3	16.7	22.0
2007	10.4	8.9	11.5
2008	15.6	17.7	18.2

[a] Mideast Region: Delaware, District of Columbia, Maryland, Pennsylvania, New York, and New Jersey.
[b] Wholesale and retail trade.
[c] Finance, insurance and real estate.
[d] Includes transportation, communications, electric, gas and sanitary services.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

The Commonwealth's average hourly wage rate of $15.77 for manufacturing and production workers compares below the national average of $17.74 for 2008. The following table presents the average hourly wage rates for 2004 through 2008.

Average Hourly Wages
Production Workers on Manufacturing Payrolls
Pennsylvania and the United States
2004-2008

Calendar Year	PA	US
2004	$ 15.16	$ 16.14
2005	15.26	16.56
2006	15.38	16.81
2007	15.48	17.26
2008	15.77	17.74

Source: U.S. Department of Labor, Bureau of Labor Statistics

Market and Assessed Valuation of Real Property

Annually, the State Tax Equalization Board (the "STEB") determines an aggregate market value of all taxable real property in the Commonwealth. The STEB determines the market value by applying assessment to sales ratio studies to assessment valuations supplied by local assessing officials. The market values certified by the STEB do not include property that is tax exempt but do include an adjustment correcting the data for preferential assessments granted to certain farm and forestlands.

The table below shows the assessed valuation as determined and certified by the counties and the market value and the assessed to market value ratio determined by the STEB for real property over the last ten years. Increases in valuations shown below result from reassessment valuations by the counties, changes in property tax rolls and increases in the real value of existing property. In computing the market values for uneven-numbered years, the STEB is statutorily restricted to certifying only those changes in market value that result from properties added to or removed from the assessment rolls. The STEB is permitted to adjust the market valuation to reflect any change in real estate values or other economic change in value only in even-numbered years. This restriction accounts for the two-year pattern of market value changes apparent in the data below.

Valuations of Taxable Real Property
1998-2007

Year	Market Value[(a)]	Assessed Valuation	Ratio of Assessed Valuation to Market Value[(a)]
1999	$ 390,136,860,900	$ 208,896,190,899	53.5
2000	420,041,123,600	241,060,798,812	57.4
2001	430,102,389,400	310,111,943,560	72.1
2002	467,311,009,700	325,451,064,697	69.6
2003	478,362,689,800	348,726,965,926	72.9
2004	523,595,339,800	352,014,550,601	67.2
2005	533,700,991,300	378,014,057,174	70.8
2006	605,769,012,300	393,871,997,992	65.0
2007	619,340,351,400	400,430,467,002	64.7
2008	696,808,084,100	406,621,957,397	58.4

(a) Value adjusted for difference between regular assessment and preferential assessment permitted on certain farm and forestlands.
Source: Annual Certifications by the State Tax Equalization Board July 2008.

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COMMONWEALTH GOVERNMENT AND FISCAL ADMINISTRATION

The government of the Commonwealth is composed of three separate branches. A general organization chart of the Commonwealth's government is shown on the following page.

Legislative Branch

The legislative branch consists of the General Assembly and its staff. The General Assembly is bicameral, composed of the Senate and the House of Representatives. The 50 members of the Senate serve staggered four-year terms and the 203 Representatives serve identical two-year terms. The General Assembly meets in regular session biannually beginning on the first Tuesday of January following elections. Special sessions may be called by the Governor on petition of a majority of the members of each house or whenever the Governor determines that public interest so requires. Legislative leadership includes majority and minority leaders in each house, a President Pro Tempore of the Senate and a Speaker of the House of Representatives.

Executive Branch

The Executive Branch is headed by five elected officials and encompasses 19 departments and approximately 36 independent commissions, boards, authorities and agencies.

The five elected officials are the Governor, the Lieutenant Governor, the Attorney General, the State Treasurer and the Auditor General. The Governor and the Lieutenant Governor are elected on the same ballot and serve a four-year term. The Governor is eligible to succeed himself for one term. The Auditor General, the Attorney General and the State Treasurer are elected for four-year terms in an even-year election held between gubernatorial elections.

The Governor is the chief executive officer of the Commonwealth. All departments except those of the State Treasurer, the Attorney General and the Auditor General are under the direct jurisdiction of the Governor. The head of each of the remaining departments is a Secretary who is appointed by the Governor and confirmed by a majority vote of the Senate. Each Secretary serves at the Governor's pleasure and is a member of the Governor's Cabinet.

The Lieutenant Governor presides over the Senate and serves as Acting Governor during the disability of the Governor and becomes Governor in the case of the death, conviction or impeachment, failure to qualify or resignation of the Governor.

The Attorney General is the chief law enforcement officer of the Commonwealth and is responsible for upholding and defending the constitutionality of all statutes. He is also responsible for reviewing the form and legality of all proposed rules and regulations, deeds, leases and contracts to be executed by Commonwealth agencies. The Office of Attorney General is under the Attorney General's direct jurisdiction.

The State Treasurer is charged with receiving, depositing and investing all Commonwealth funds and is responsible for the pre-audit approval of all requisitions for the disbursements of monies in the State Treasury. The Treasury Department is under the State Treasurer's direct jurisdiction.

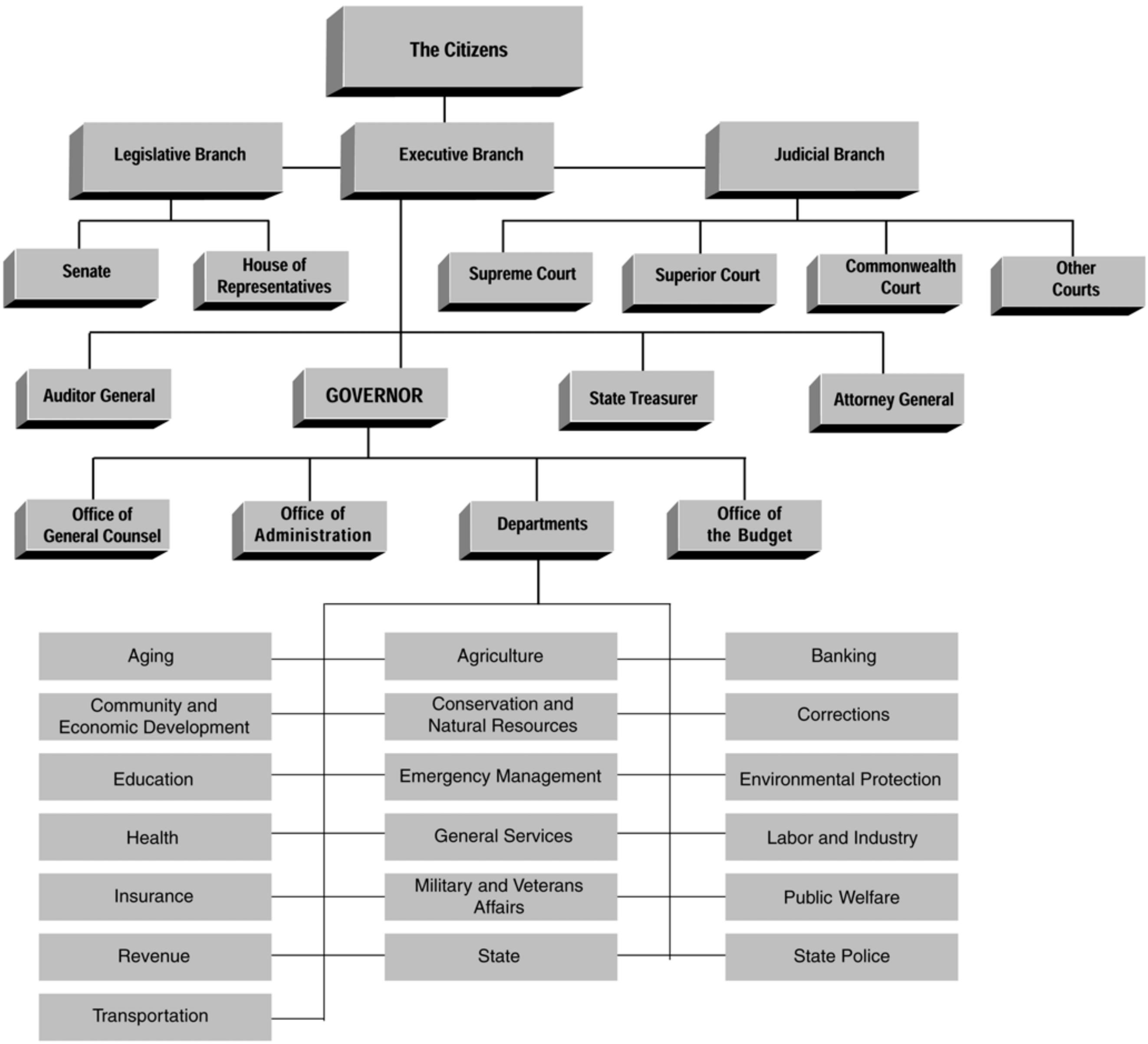
The Auditor General is charged with making audits of completed financial transactions. The Department of the Auditor General is under the Auditor General's direct jurisdiction.

Activities of state government are also conducted by various independent commissions, boards, authorities and agencies created by statute and not under the direct jurisdiction of the executive and legislative branches.

Judicial Branch

The judicial power of the Commonwealth is vested in a unified judicial system consisting of a Supreme Court and various other courts of original and appellate jurisdiction which are under the supervision and authority of the Supreme Court. All justices, judges and district justices are elected to office.

Commonwealth of Pennsylvania
Organization Chart



AGENCIES

Higher Education Assistance
Housing Finance
Interstate Agencies

AUTHORITIES

Commonwealth Financing
Energy Development
Higher Education Facilities
Industrial Development
Infrastructure Investment
Minority Business Development
Public School Building

BOARDS

Claims
Environmental Hearing
Gaming Control
Finance and Revenue
Liquor Control
Milk Marketing
Municipal Retirement
Pardons
Probation and Parole
Public School Employees' Retirement
State Employees' Retirement
Tax Equalization

COMMISSIONS

Civil Service
Crime and Delinquency
Ethics
Fish and Boat
Game
Harness Racing
Historical and Museum
Horse Racing
Human Relations
Juvenile Court Judges
Public Employee Retirement
Public Television Network
Public Utility
Securities
Turnpike

Fiscal Organization

Each branch of the Commonwealth's government is responsible for its respective fiscal operations subject to restrictions embodied in the Constitution, the Administrative Code, and the Fiscal Code. Such restrictions are enforced and other central administrative functions are provided by five departments: the Office of the Budget ("OB"), the Office of Administration ("OA"), the Treasury Department, the Department of Revenue and the Department of the Auditor General. OB and OA are administrative offices within the Governor's offices. The Secretary of the Budget and the Secretary of Administration are appointed by the Governor and are responsible for the operations of their respective offices. The Department of Revenue is led by the Secretary of Revenue, who is appointed by the Governor subject to the advice of the Senate. The Treasury Department and the Department of the Auditor General are headed by the respective elected officials.

OB monitors the operation of the Commonwealth's departments, operates a central accounting system, compiles and publishes the Commonwealth's financial reports, assists in the preparation and publication of the budget, coordinates capital improvements and is responsible for the issuance of the Commonwealth's debt. OA is responsible for personnel policy and programs, management policy and organizational structure, data processing service, and electronic data processing policy and planning. The Treasury Department receives, invests and disburses all funds and maintains central cash records. The Department of Revenue administers the collection of most taxes. The Department of the Auditor General oversees the examination of the majority of financial transactions.

Commissions, authorities and agencies that are both independent by statute and financially self-supporting, operate autonomously although their capital projects and financing are reviewed by OB and included in the capital budget.

The Budgetary Process

The Commonwealth operates on a fiscal year beginning July 1 and ending June 30. For example, "fiscal year 2007" refers to the fiscal year ending on June 30, 2007.

The budget process commences in September, nine months prior to the beginning of the fiscal year, as departments formulate their initial budgets in response to Program Policy Guidelines issued by the Governor and hold preliminary hearings with OB and other members of the Governor's staff. By November 1, formal budget requests are submitted to OB by all government departments and other institutions requesting appropriations. OB, under the direction of the Secretary of Budget, reviews the requests through November and December and may hold formal hearings.

The Department of Revenue, in conjunction with OB, prepares revenue estimates. In the preparation of such estimates, internal analysis, information from selected departments and econometric analysis are utilized. The Commonwealth subscribes to economic forecasts prepared by Global Insight for national and Pennsylvania economic data that are used to estimate economically sensitive Commonwealth revenues. Other econometric forecasts are also consulted.

The Constitution requires that the Governor submit annually to the General Assembly a budget consisting of three parts:

(a) a balanced operating budget for the ensuing fiscal year setting forth proposed expenditures and estimated revenues from all sources and, if estimated revenues and available surplus are less than proposed expenditures, recommending specific additional sources of revenue sufficient to pay the deficiency;

(b) a capital budget for the ensuing fiscal year setting forth in detail proposed expenditures to be financed from the proceeds of obligations of the Commonwealth or of its agencies or authorities or from operating funds; and

(c) a financial plan for not less than the succeeding five fiscal years, which includes for each year (i) projected operating expenditures classified by department or agency and by program, and estimated revenues by major categories from existing and additional sources, and (ii) projected expenditures for capital projects specifically itemized by purpose and their proposed sources of financing.

All funds received by the Commonwealth are subject by statute to appropriation in specific amounts by the General Assembly or by executive authorizations by the Governor. The Governor's budget encompasses both annual appropriations and executive authorizations.

The Governor is required to submit the proposed budget as soon as possible after the organization of the General Assembly but not later than the first full week in February except in his first year of office. The Governor's submission begins with the Budget Message delivered in joint session. The budget in the form of a proposed bill is delivered to the appropriations committee of one of the houses. Hearings are held on the bills constituting the budget. In an iterative process, bills are reported from committee to floor and considered in and between houses.

The operating budget is considered in the form of the General Appropriations Bill and its supplements. The Bill is limited to appropriations for debt service, public schools and the executive, legislative and judicial branches. Its supplements cover appropriations from special revenue funds not included in the General Appropriations Bill and for such subjects as capital projects funded from current revenues. The operating budget also includes single subject bills covering appropriations made to any charitable or educational institutions not under the absolute control of the Commonwealth other than certain State-owned schools ("non-preferred appropriations").

The Constitution mandates that total operating budget appropriations made by the General Assembly may not exceed the sum of (a) the actual and estimated revenues in a given year, and (b) the surplus of the preceding year. The Constitution further specifies that a surplus of operating funds at the end of the fiscal year shall be appropriated. That is, if funds remain from the end of a fiscal year they must be appropriated for the ensuing year. Also, if a deficit occurs at year-end, funds must be provided for such a deficit.

Pursuant to the Administrative Code, the executive branch establishes the revenue estimates used in the budget. In practice, the revenue estimates used to balance the operating budget consist of the appropriate fund's available surplus and its estimated cash receipts for the fiscal year as well as net accruals. Appropriation lapses estimated to occur during the year or at year-end are not included; lapses are not available for re-appropriation until they occur.

Under this budgetary process a deficit can occur if revenues are less than those estimated in the budget and the shortfall is not offset by any unappropriated surplus or by appropriation lapses during or at the end of the year or by legislative action to increase revenues or reduce appropriation.

The Administrative Code was amended in 1978 to provide for stronger executive control of expenditures. All departments under the Governor's jurisdiction may be required to submit estimates of expenditures during the ensuing month, quarter or any other such period as requested by the Governor. These estimates are subject to the approval of the Secretary of Budget. The Governor is empowered to request the State Treasurer to withhold funds from any such department not spending within such estimates. The Secretary of Budget is empowered to set personnel levels for departments. Departments are required to provide personnel data monthly so that the Commonwealth's computerized data file on personnel levels can be maintained and used to monitor the Commonwealth's largest operating expense.

The proposed capital budget is considered in the form of the Capital Budget Bill and its supplements. The capital budget determines limits for the amount of debt that can be issued in that fiscal year for categories of capital projects, itemizes for funding all capital projects not previously itemized, authorizes the issuance of debt to finance these projects and appropriates the proceeds from the issuance of debt.

All appropriations require the majority vote of all members in each house except for non-preferred appropriations and appropriations from the Budget Stabilization Reserve Fund and from the Health Endowment Account portion of the Tobacco Settlement Fund which require passage by a two-thirds vote. During the legislative process, the General Assembly may add, change or delete any items in the budget proposed by the Governor. Once the bills constituting the budget have passed both houses and are returned to the Governor, he may either veto bills or item veto appropriations within bills. A gubernatorial veto can be overridden only by a two-thirds majority of all members of each house.

In the event that the General Assembly fails to pass or the Governor fails to sign an appropriations act prior to July 1 of any fiscal year for that fiscal year, the Pennsylvania Constitution, the laws of Pennsylvania and certain state and federal court decisions provide that the Commonwealth may continue during such un-budgeted fiscal year to make debt service payments, payments for mandated federal programs such as cash assistance and payments related to the health and safety of the citizens of the Commonwealth such as police and correctional services.

Accounting and Budgetary Controls

Every department of the executive branch that receives appropriations from the Commonwealth, with the exception of the Treasury Department and the Departments of the Auditor General and the Attorney General, has a comptroller appointed by and under the direct jurisdiction of the Governor. These agencies share a centralized encumbrance-based accounting system supervised by OB. Executive departments operating separate additional accounting systems include the Department of Transportation for the Motor License Fund, the Liquor Control Board for the State Stores Fund and the Department of Labor and Industry for the payment of unemployment compensation benefits. Officials within the Treasury Department, the Departments of the Auditor General and the Attorney General and the judicial and legislative branches administer individual operations under the jurisdiction of their respective areas.

Expenditure control occurs at two levels. The first is by appropriations and is enforced by the State Treasurer and individual comptrollers. The second is by allocations and allotments and is enforced by OB for all departments receiving appropriations, except for the legislative branch.

Departments receive authorization to spend and commit funds in the form of appropriations for a specific amount, purpose and time period. Funds appropriated to a single department may be in one or more appropriations as the General Assembly determines. When multiple appropriations to a department are enacted, separate appropriations are made for general operating expenses, special outlays and for specific programs or groupings thereof. The degree to which a department's total appropriations are itemized may vary, but control is exercised over both total and individual appropriations.

The Constitution requires that with the exceptions named, monies may be paid from the Treasury only if appropriated by law. Accordingly, when a voucher is submitted to the State Treasurer, a check will not be issued unless the amount is within the balance of the agency's total appropriation.

Departments are prevented by their comptrollers from incurring obligations in excess of their unexpended individual appropriations by an encumbrance system. Encumbrance control prevents spending beyond remaining individual appropriation balances. When a commitment or obligation is incurred, for example, when a contract or purchase order is signed, the required portion of the corresponding appropriation is reserved. This reserving of funds is called the encumbrance procedure. All obligations anticipating future disbursement of cash in the fiscal year require an encumbrance, with the exception of debt service payments. Since a debt service appropriation is used for no purpose other than debt service, an encumbrance is not necessary.

All individual appropriations are allocated by OB to departments by major object groups. For example, a department's appropriation for operating expenses may be broken down into such major object groups as personnel service, operating expenses and supplies, etc. Additionally, major object groups are subdivided into minor object groups. For example, personnel service would be broken down into salaries, benefits, overtime, etc. Department expenditures are monitored to insure that expenditures within an allocation do not exceed the designated totals. The departments, however, are free to adjust their expenditures between minor object groups as long as they do not exceed the major object group allocation. OB can monitor department expenditures against their allocations on a continuing basis as the records of departments under the Governor's jurisdiction can be accessed from the central system while those of most other departments and branches are provided monthly.

In addition to the preceding controls, another check is provided by the financial reporting process. All department records are reconciled by OB on a monthly basis with the Treasury Department's records of cash transactions and with the Department of Revenue's records of cash collections.

Audits

The Constitution requires that the financial affairs of any entity receiving appropriations and all department boards, commissions, agencies, instrumentalities, authorities and institutions of the Commonwealth be subject to audits made in accordance with generally accepted auditing standards. Any Commonwealth officer whose approval is necessary for any transaction may not be charged with the function of auditing that transaction after its occurrence.

The Department of the Auditor General has the responsibility for auditing all state-related financial transactions except its own, those of the legislative and judicial branches, and boards and commissions on which the Auditor General serves and those of certain funds. At least one audit must be made annually of the fiscal affairs of the executive branch. Audits of the Commonwealth General Purpose Financial Statements since fiscal 1985 have been performed jointly by the Department of the Auditor General and an independent public accounting firm.

The Treasury Department is required to pre-audit all requests for expenditures to insure that they are in accordance with law. In addition, OB conducts, as a matter of administrative policy, periodic audits of comptrollers under the Governor's jurisdiction and performance audits of state and federal programs.

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APPENDIX D

INFORMATION REGARDING
THE DEPOSITORY TRUST COMPANY
AND ITS BOOK-ENTRY SYSTEM

The information that follows concerning The Depository Trust Company, New York, New York ("DTC") and the book-entry only system described below is based solely on information furnished by DTC and is not, and should not be construed as, a representation by the Commonwealth as to its accuracy, completeness or otherwise.

DTC will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Note certificate will be issued for each maturity of the Notes, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Direct Participants are on file with the Securities and Exchange Commission.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of the Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the Note documents. Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the Loan and Transfer Agent and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Notes. Under its usual procedures, DTC will mail an Omnibus Proxy to the Commonwealth as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Notes will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commonwealth or its agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participants and not of DTC (nor its nominee), the Loan and Transfer Agent, or the Commonwealth, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commonwealth or the Loan and Transfer Agent, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the Commonwealth or the Loan and Transfer Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Note certificates are required to be printed and delivered.

The foregoing information concerning DTC and DTC's book-entry system has been obtained from information furnished by DTC. No representation or warranty is made by the Commonwealth as to the accuracy or completeness of such information.

The Commonwealth may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Note certificates will be printed and delivered.

For so long as the Notes are registered in the name of DTC, or its nominee Cede & Co., the Commonwealth and the Loan and Transfer Agent will treat Cede & Co. as the registered owner of the Notes for all purposes, including payments, notices and voting.

Neither the Commonwealth nor the Loan and Transfer Agent shall have any responsibility or obligation to any Direct or Indirect Participant or Beneficial Owner with respect to (a) the accuracy of any records maintained by DTC or any Direct or Indirect Participant with respect to any beneficial ownership interest in any Notes; (b) the payment by any Direct or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal of, premium, if any, and interest on the Notes; (c) the delivery or timeliness of delivery by any Direct or Indirect Participant of any notice to any Beneficial Owner of any notice with respect to the Notes, including, without limitation any notice of redemption; or (d) other action taken by DTC or Cede & Co., including the effectiveness of any action taken pursuant to an Omnibus Proxy.

SELECTED CONSTITUTIONAL PROVISIONS RELATING TO THE FINANCES OF THE COMMONWEALTH

Article VIII — TAXATION AND FINANCE

Commonwealth Indebtedness

Section 7. (a) No debt shall be incurred by or on behalf of the Commonwealth except by law and in accordance with the provisions of this section.

(1) Debt may be incurred without limit to suppress insurrection, rehabilitate areas affected by man-made or natural disaster, or to implement unissued authority approved by the electors prior to the adoption of this article.

(2) The Governor, State Treasurer and Auditor General, acting jointly, may (i) issue tax anticipation notes having a maturity within the fiscal year of issue and payable exclusively from revenues received in the same fiscal year, and (ii) incur debt for the purpose of refunding other debt, if such refunding debt matures within the term of the original debt.

(3) Debt may be incurred without limit for purposes specifically itemized in the law authorizing such debt, if the question whether the debt shall be incurred has been submitted to the electors and approved by a majority of those voting on the question.

(4) Debt may be incurred without the approval of the electors for capital projects specifically itemized in a capital budget if such debt will not cause the amount of all net debt outstanding to exceed one and three-quarters times the average of the annual tax revenues deposited in the previous five fiscal years as certified by the Auditor General. For the purposes of this subsection, debt outstanding shall not include debt incurred under clauses (1) and (2) (i), or debt incurred under clause (2) (ii) if the original debt would not be so considered, or debt incurred under subsection (3) unless the General Assembly shall so provide in the law authorizing such debt.

(b) All debt incurred for capital projects shall mature within a period not to exceed the estimated useful life of the projects as stated in the authorizing law, and when so stated shall be conclusive. All debt, except indebtedness permitted by clause (2) (i), shall be amortized in substantial and regular amounts, the first of which shall be due prior to the expiration of a period equal to one-tenth the term of the debt.

(c) As used in this section, debt shall mean the issued and outstanding obligations of the Commonwealth and shall include obligations of its agencies or authorities to the extent they are to be repaid from lease rentals or other charges payable directly or indirectly from revenues of the Commonwealth. Debt shall not include either (1) that portion of obligations to be repaid from charges made to the public for the use of the capital projects financed, as determined by the Auditor General, or (2) obligations to be repaid from lease rentals or other charges payable by a school district or other local taxing authority, or (3) obligations to be repaid by agencies or authorities created for the joint benefit of the Commonwealth and one or more other State governments.

(d) If sufficient funds are not appropriated for the timely payment of the interest upon and installments of principal of all debt, the State Treasurer shall set apart from the first revenues thereafter received applicable to the appropriate fund a sum sufficient to pay such interest and installments of principal, and shall so apply the money so set apart. The State Treasurer may be required to set aside and apply such revenues at the suit of any holder of Commonwealth obligations.

Commonwealth Credit Not to be Pledged

Section 8. The credit of the Commonwealth shall not be pledged or loaned to any individual, company, corporation or association nor shall the Commonwealth become a joint owner or stockholder in any company, corporation or association.

Municipal Debt Not to be Assumed by Commonwealth

Section 9. The Commonwealth shall not assume the debt, or any part thereof, of any county, city, borough, incorporated town, township or any similar general purpose unit of government unless such debt shall have been incurred to enable the Commonwealth to suppress insurrection or to assist the Commonwealth in the discharge of any portion of its present indebtedness.

Audit

Section 10. The financial affairs of any entity funded or financially aided by the Commonwealth, and all departments, boards, commissions, agencies, instrumentalities, authorities and institutions of the Commonwealth, shall be subject to audits made in accordance with generally accepted auditing standards.

Any Commonwealth officer whose approval is necessary for any transaction relative to the financial affairs of the Commonwealth shall not be charged with the function of auditing that transaction after its occurrence.

Gasoline Taxes and Motor License Fees Restricted

Section 11. (a) All proceeds from gasoline and other motor fuel excise taxes, motor vehicle registration fees and license taxes, operators' license fees and other excise taxes imposed on products used in motor transportation after providing there from for (a) cost of administration and collection, (b) payment of obligations incurred in the construction and reconstruction of public highways and bridges shall be appropriated by the General Assembly to agencies of the State or political subdivisions thereof; and used solely for construction, reconstruction, maintenance and repair of and safety on public highways and bridges and costs and expenses incident thereto, and for the payment of obligations incurred for such purposes, and shall not be diverted by transfer or otherwise to any other purpose, except that loans may be made by the State from the proceeds of such taxes and fees for a single period not exceeding eight months, but no such loan shall be made within the period of one year from any preceding loan, and every loan made in any fiscal year shall be repayable within one month after the beginning of the next fiscal year.

(b) All proceeds from aviation fuel excise taxes, after providing therefrom for the cost of administration and collection, shall be appropriated by the General Assembly to agencies of the State or political subdivisions thereof and used solely for: the purchase, construction, reconstruction, operation, and maintenance of airports and other air navigation facilities; aircraft accident investigation; the operation, maintenance and other costs of aircraft owned or leased by the Commonwealth; any other purpose reasonably related to air navigation including but not limited to the reimbursement of airport property owners for property tax expenditures; and costs and expenses incident thereto and for the payment of obligations incurred for such purposes, and shall not be diverted by transfer or otherwise to any other purpose.

Governor's Budgets and Financial Plan

Section 12. Annually, at the times set by law, the Governor shall submit to the General Assembly:

(a) A balanced operating budget for the ensuing fiscal year setting forth in detail (i) proposed expenditures classified by department or agency and by program and (ii) estimated revenues from all sources. If estimated revenues and available surplus are less than proposed expenditures, the Governor shall recommend specific additional sources of revenue sufficient to pay the deficiency and the estimated revenue to be derived from each source;

(b) A capital budget for the ensuing fiscal year setting forth in detail proposed expenditures to be financed from the proceeds of obligations of the Commonwealth or of its agencies or authorities or from operating funds; and

(c) A financial plan for not less than the next succeeding five fiscal years, which plan shall include for each such fiscal year:

(i) Projected operating expenditures classified by department or agency and by program, in reasonable detail, and estimated revenues, by major categories, from existing and additional sources; and

(ii) Projected expenditures for capital projects specifically itemized by purpose, and the proposed sources of financing each.

Appropriations

Section 13. (a) Operating budget appropriations made by the General Assembly shall not exceed the actual and estimated revenues and surplus available in the same fiscal year.

(b) The General Assembly shall adopt a capital budget for the ensuing fiscal year.

Surplus

Section 14. All surplus of operating funds at the end of the fiscal year shall be appropriated during the ensuing fiscal year by the General Assembly.

Project "70"

Section 15. In addition to the purposes stated in article eight, section seven of this Constitution, the Commonwealth may be authorized by law to create debt and to issue bonds to the amount of seventy million dollars ($70,000,000) for the acquisition of land for State parks, reservoirs and other conservation and recreation and historical preservation purposes and for participation by the Commonwealth with political subdivisions in the acquisition of land for parks, reservoirs and other conservation and recreation and historical preservation purposes, subject to such conditions and limitations as the General Assembly may prescribe.

Land and Water Conservation and Reclamation Fund

Section 16. In addition to the purposes stated in article eight, section seven of this Constitution, the Commonwealth may be authorized by law to create debt and issue bonds in the amount of five hundred million dollars ($500,000,000) for a Land and Water Conservation and Reclamation Fund to be used for the conservation and reclamation of land and water resources of the Commonwealth, including the elimination of acid mine drainage, sewage, and other pollution from the streams of the Commonwealth, the provision of State financial assistance to political subdivisions and municipal authorities of the Commonwealth of Pennsylvania for the construction of sewage treatment plants, the restoration of abandoned strip-mined areas, the control and extinguishment of surface and underground mine fires, the alleviation and prevention of subsidence resulting from mining operations, and the acquisition of additional lands and the reclamation and development of park and recreational lands acquired pursuant to the authority of Article VIII, section 15 of this Constitution, subject to such conditions and liabilities as the General Assembly may prescribe.

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APPENDIX F

**PROPOSED FORM OF OPINION OF
THE ATTORNEY GENERAL OF
THE COMMONWEALTH OF PENNSYLVANIA**

January 21, 2010

TO THE GOVERNOR, AUDITOR GENERAL
AND STATE TREASURER AS THE ISSUING
OFFICIALS OF THE COMMONWEALTH:

Re: Commonwealth of Pennsylvania General Obligation Bonds, First Series A and First Series B of 2010

This opinion is furnished to you in connection with the issuance and sale by the Commonwealth of Pennsylvania (the "Commonwealth") on the date hereof of $295,865,000 aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, First Series A of 2010 (the "First Series A Bonds") and the $604,135,000 aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, First Series B of 2010 (the "First Series B Bonds" and together with the First Series A Bonds, the "Bonds"). The Bonds are dated the date of issuance and delivery. The Bonds are issued as fully registered bonds without coupons in the denomination of $5,000 or any integral multiple thereof within a maturity and will bear interest from the date of issuance and delivery, payable semi-annually on February 15 and August 15 of each year commencing August 15, 2010, until the obligation with respect to the payment of such principal shall have been discharged.

The Bonds are authorized and issued pursuant to and in full compliance with the provisions, restrictions and limitations of Section 7 of Article VIII of the Constitution; the laws of the Commonwealth, including the Capital Facilities Debt Enabling Act, Act No. 1999-1, approved February 9, 1999, as amended, annual capital budget bills and various bond authorization bills enacted by the General Assembly. The Bonds are also authorized and issued pursuant to resolutions adopted by the Governor, the State Treasurer, and the Auditor General (the "Issuing Officials") on January 5, 2010, and January 13, 2010 (collectively, the "Resolutions").

The Resolutions, among other things, authorize the issuance and sale of the Bonds, and prescribe the forms thereof, the manner of bidding therefore and the forms of the bidding documents used in connection with the issuance and sale of the Bonds.

Under Section 7(a)(4) of Article VIII of the Constitution, the Commonwealth may incur debt without the approval of the electors to finance such projects, if such debt will not cause the amount of all debt outstanding (as defined for the purposes of that Section) to exceed one and three-quarters times the average of the annual tax revenues deposited in all funds in the previous five fiscal years, as certified by the Auditor General.

I have examined Article VIII, Section 7 of the Constitution and the statutes referred to above, specimens of the Bonds, the Resolutions, and the other certificates delivered today at the Closing and such other matters and documents as I deemed necessary or appropriate.

I am of the opinion that:

1. Section 7 of Article VIII of the Constitution have been duly approved and adopted and have become part of the Constitution of Pennsylvania, and the statutes referred to above have been duly and properly enacted.

2. Pursuant to full and adequate legal power conferred upon them by the Constitution and the statutes referred to above, the Governor, the Auditor General and the State Treasurer have duly adopted the Resolutions and have validly taken all other necessary and proper action to issue and sell the Bonds, and the Bonds have been validly authorized, issued and sold pursuant to proper and appropriate action of such officials.

3. The Bonds are lawful, valid, direct and general obligations of the Commonwealth, and the full faith and credit of the Commonwealth is pledged for the payment of interest thereon as the same shall become due and for the payment of the principal thereof at maturity.

4. Under the provisions of Section 2901 of the Tax Reform Code of 1971, as amended, the Bonds and the interest thereon are exempt from taxation for state and local purposes within the Commonwealth, but this exemption does not extend to (a) gift, estate, succession or inheritance taxes or (b) any other taxes not levied or assessed directly on the Bonds or the interest thereon.

5. The Commonwealth has the power to provide for the payment of the principal of and interest on $100,000,000.00 aggregate principal amount of the Bonds by levying unlimited ad valorem taxes upon all taxable property within the Commonwealth and excise taxes upon all taxable transactions within the Commonwealth, uniform on the same class of subjects, except gasoline and other motor fuel excise taxes, motor vehicle registration fees and license taxes, and operators' license fees and other excise taxes imposed on products used in motor transportation, and aviation fuel excise taxes, the proceeds of which are limited to certain special purposes by Section 11 of Article VIII of the Constitution.

6. The Commonwealth has the power to provide for the payment of the principal of and interest on $800,000,000.00 aggregate principal amount of the Bonds by levying unlimited ad valorem taxes upon all taxable property within the Commonwealth and excise taxes upon all taxable transactions within the Commonwealth, uniform on the same class of subjects, excluding aviation fuel excise taxes but including gasoline and other motor fuel excise taxes, and other excise taxes imposed on products used in motor transportation and by applying the motor vehicle registration fees, license taxes and operators' license fees to such payment.

7. If sufficient funds are not appropriated for timely payment of interest on and installments of principal of the Bonds, the Constitution requires the State Treasurer to set apart from the first revenues thereafter received applicable to the appropriate fund, a sum sufficient to pay such interest and installments of principal and to apply said sum to such purposes, and the State Treasurer may be required to set aside and apply such revenues at the suit of the holder of any of the Bonds.

Very truly yours,

Tom Corbett
Attorney General

APPENDIX G

BELOW IS THE PROPOSED FORM OF OPINION OF BOND COUNSEL EXPECTED TO BE DELIVERED IN CONNECTION WITH THE ISSUANCE OF THE FIRST SERIES OF 2010 BONDS

January 21, 2010

RE: $____________ Commonwealth of Pennsylvania
General Obligation Bonds, First Series of 2010

TO THE PURCHASERS OF THE BONDS:

We have served as Bond Counsel to the Commonwealth of Pennsylvania (the "Commonwealth") in connection with the issuance of its $___________ General Obligation Bonds, First Series of 2010 comprised of $________ aggregate principal amount of its General Obligation Bonds, First Series A of 2010 (Federally Tax-Exempt) (the "First Series A Bonds") and $________ aggregate principal amount of its General Obligation Bonds, First Series B of 2010 (Federally Taxable – Build America Bonds) (the "First Series B Bonds", and together with the First Series A Bonds, the "Bonds"). The Bonds are issued under and pursuant to (i) Section 7 of Article VIII of the Constitution of the Commonwealth, (ii) the laws of the Commonwealth, including the Capital Facilities Debt Enabling Act, Act No. 1991-1, approved February 9, 1999, as amended, annual capital budget bills and various bond authorization bills enacted by the General Assembly, as amended (collectively, the "Act"), and (iii) bond resolutions adopted by the Governor, State Treasurer and Auditor General of the Commonwealth (collectively, the "Issuing Officials") on January 5, 2010 and January __, 2010 (the "Resolutions"). Capitalized terms used herein but not defined shall have the meanings set forth in the Resolutions.

The Bonds are being issued by the Commonwealth (i) to finance the costs of construction, acquisition and major rehabilitation of various Commonwealth capital facilities, including public buildings, roads and bridges and of redevelopment assistance projects as well as of environmental enhancement and protective projects, and (ii) to pay the costs of issuance of the Bonds.

We have examined and relied on the proceedings relating to the authorization and issuance of the Bonds, including, among other things: (a) the Constitution of the Commonwealth and the Act; (b) certified copies of the Resolutions; (c) an opinion of the Honorable Thomas Corbett, Attorney General of the Commonwealth; (d) certificates executed by the Commonwealth and its Loan and Transfer Agent for the Bonds as to the execution and authentication of the Bonds; (e) a certificate of the Auditor General of the Commonwealth regarding the Commonwealth's compliance with the debt limitation contained in Section 7(a)(4) of Article VIII of the Constitution; (f) various other certificates executed by the Commonwealth, including a certificate with regard to Sections 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended (the "Code"); and (g) the Form 8038-G of the Commonwealth with respect to the Bonds. In rendering our opinion, we have not undertaken to verify the factual matters set forth in such certificates by independent investigation and have relied on the covenants, warranties and representations made by the Commonwealth in such certificates and in the Resolutions and other financing documents.

From our examination of the foregoing and such other items as we deem relevant, we are of the opinion that:

1. The principal amount of the Bonds is within all applicable debt and other limitations fixed by the Constitution and the laws of the Commonwealth.

2. The Bonds have been duly authorized, executed and delivered by the Commonwealth pursuant to all necessary action of the Issuing Officials and constitute valid and binding general obligations of the Commonwealth, enforceable against the Commonwealth in accordance with the terms thereof, except as enforcement may be limited by laws relating to bankruptcy, insolvency, reorganization, arrangement, moratorium or similar laws affecting creditors' rights generally and subject to limitations on legal remedies against public entities in the Commonwealth, to general

principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and to the exercise of judicial discretion.

3. The full faith and credit of the Commonwealth are pledged for the payment of the principal of and interest due on the Bonds. If sufficient funds are not appropriated for the timely payment of interest on and installments of principal of the Bonds, the Constitution requires the State Treasurer to set apart from the first revenues thereafter received applicable to the appropriate fund, a sum sufficient to pay such interest and installments of principal and to apply said sum to such purposes, and the State Treasurer may be required to set aside and apply such revenues at the suit of the holder of any of the Bonds.

4. Under existing laws of the Commonwealth, the interest on the Bonds is free from Pennsylvania personal income taxation and Pennsylvania corporate net income taxation, but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the Bonds or the interest thereon.

5. Interest on the First Series A Bonds is excluded from gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion set forth in the preceding sentence is subject to the condition that the Commonwealth comply with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the First Series A Bonds in order that interest thereon continues to be excluded from gross income for purposes of federal income taxation. Failure to comply with all of such requirements could cause the interest on the First Series A Bonds to be includable in gross income retroactive to the date of issuance of the First Series A Bonds. Interest on the First Series A Bonds is not an item of tax preference, within the meaning of Section 57 of the Internal Revenue Code (the "Code"), for purposes of the alternative minimum tax imposed by Section 55 of the Code on individuals and corporations, and is not included in adjusted current earnings under Section 56(g) of the Code when calculating corporate alternative minimum taxable income. We express no opinion regarding other federal tax consequences relating to the Bonds or the receipt of interest thereon.

6. The Bonds are exempt from registration under the provisions of the Securities Act of 1933, as amended.

We express no opinion herein on the adequacy, completeness or accuracy of any official statement, placement memorandum or other disclosure document pertaining to the offering of the Bonds.

This opinion is given as of the date hereof and we express no opinion as to any matter not set forth in the numbered paragraphs herein. We assume no obligation to update or supplement this opinion to reflect any facts or circumstances which may hereafter come to our attention or any changes in law which may hereafter occur.

Very truly yours,

Obermayer Rebmann Maxwell & Hippel LLP

NOTICE OF SALE
$900,000,000*
Commonwealth of Pennsylvania
General Obligation Bonds
$295,865,000* First Series A of 2010
(Federally Tax –Exempt)
and
$604,135,000* First Series B of 2010
(Federally Taxable – Build America Bonds)

Electronic bids will be received by the Commonwealth of Pennsylvania (the "Commonwealth"), via *PARITY*® ("Parity") in the manner described below, up to 11:00 A.M., Eastern Standard Time, on

Wednesday, January 13, 2010 (the "Bid Date")

or such other subsequent date (the "Amended Bid Date") to be announced in an Amended Notice of Sale (as hereinafter defined) to be distributed not later than 4:00 P.M. on the last business day prior to the Bid Date, for the purchase of all, but not less than all, of the $295,865,000* aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, First Series A of 2010 (federally tax-exempt), (the "First Series A Bonds") and the $604,135,000* aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, First Series B of 2010 (federally taxable – Build America Bonds), (the "First Series B Bonds" and together with the First Series A Bonds, collectively, the "Bonds").

Bids must be submitted in accordance with this Notice of Sale prior to 11:00 A.M. Eastern Standard Time on the Bid Date. No bid will be accepted after the bid deadline.

Right to Amend

The Commonwealth reserves the right, in its sole discretion, to:

1. change the date it will receive and open electronic bids to purchase the Bonds;
2. increase or decrease the principal amount of the First Series A Bonds, the First Series B Bonds, or both Bonds being offered.
3. adjust the respective par amounts of the First Series A Bonds and the First Series B Bonds based on prevailing market conditions at the time of the sale of the Bonds, including without limitation, the reallocation of serial maturities of the First Series A Bonds and the First Series B Bonds as between such two series;
4. determine whether the First Series B Bonds will be issued as federally taxable Build America Bonds or as federally tax exempt Bonds based on prevailing market conditions at the time of sale of the First Series B Bonds; and,
5. determine the appropriate redemption options relative to the First Series B Bonds based on prevailing market conditions at the time of the sale of the First Series B Bonds.

Changes to the Bonds being offered, if made, will be contained in an Amended Notice of Sale (the "Amended Notice") to be transmitted via the Bond Buyer Wire not later than 4:00 P.M. on the last business day prior to the Bid Date. The Amended Notice shall (i) state the Amended Bid Date (a date not before January 13, 2010) and the time by which bids to purchase the Bonds must be received by the Commonwealth; (ii) state the revised principal amounts; (iii) state the proposed closing date; and (iv) supplement and update the information contained herein to the extent deemed necessary by the Commonwealth.

* Preliminary, subject to change

Security

The Bonds will be direct and general obligations of the Commonwealth, issued pursuant to and within the applicable debt limits prescribed by Section 7 of Article VIII of the Constitution of Pennsylvania and various implementing acts of the General Assembly.

Bond Details

The Bonds will be dated the date of issuance and delivery, and will bear such rate or rates of interest, payable semiannually on August 15 and February 15 in each year commencing August 15, 2010, as shall be fixed by the purchaser in its proposal for the purchase of the Bonds. The Bonds shall mature serially on February 15 in the respective years and in the respective amounts as set forth below:

First Series A Bonds*

Due February 15*	Principal Amount*	Due February 15*	Principal Amount*
2011	$24,045,000	2016	$34,600,000
2012	28,465,000	2017	36,330,000
2013	29,890,000	2018	38,145,000
2014	31,385,000	2019	40,055,000
2015	32,950,000		

First Series B Bonds*

Due February 15*	Principal Amount*	Due February 15*	Principal Amount*
2020	$42,055,000	2026	$56,705,000
2021	44,050,000	2027	59,995,000
2022	46,205,000	2028	63,505,000
2023	48,510,000	2029	67,250,000
2024	50,980,000	2030	71,255,000
2025	53,625,000		

*Preliminary, subject to change. See “Adjustment of Principal Amounts.”

Delivery of the Bonds is proposed to occur on January 21, 2010, unless another date is set forth in any Amended Notice (the “Closing Date”).

The Bonds will be issued and sold by means of a book-entry only system with no distribution of Bond certificates made to the public. Bond certificates representing the aggregate principal amount of the Bonds maturing in each year will be issued and fully registered as to principal and interest in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), a depository registered with the Securities and Exchange Commission. Individual beneficial ownership of the Bonds will be in principal amounts of $5,000 or integral multiples thereof within a maturity pursuant to the rules and procedures established between DTC and its participants. Transfers of beneficial ownership will be effected through records maintained by DTC and its participants pursuant to rules and procedures established by DTC. The responsibility for maintaining, reviewing and supervising such records rests collectively with DTC and its participants. The winning bidder, as a condition to the delivery of the Bonds, shall be required to deposit the Bond certificates in its account at DTC, registered in the name of Cede & Co. Interest on the Bonds will be payable on each semi-annual interest payment date and principal of the Bonds will be paid annually as set forth in the foregoing maturity schedule, in same-day funds to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to the beneficial owners by participants of DTC will be the responsibility of such DTC participants and other nominees of beneficial owners. The Commonwealth will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

Build America Bonds

The Commonwealth has elected to designate the First Series B Bonds as “Build America Bonds” for purposes of the American Recovery and Reinvestment Act of 2009 (“ARRA”) and to receive payments (“Subsidy Payments”) from the United States Treasury in connection therewith. Pursuant to ARRA, the Commonwealth is to receive a Subsidy Payment from the United States Treasury, contemporaneously with each Interest Payment Date for the First Series B Bonds, equal to 35% of the interest payable on the First Series B Bonds on such date. The Subsidy Payments do not constitute a full faith and credit guarantee of the United States of America, but are required to be paid by the United States Treasury under ARRA. If the Subsidy Payments from the United States Treasury are reduced or eliminated, the First Series B Bonds are subject to extraordinary optional redemption.

Optional Redemption

The First Series A Bonds are not subject to redemption prior to maturity. The First Series B Bonds maturing in the year 2020 are not subject to redemption prior to maturity. The First Series B Bonds, or portions thereof in integral multiples of $5,000, maturing on and after February 15, 2021, are subject to redemption at the option of the Commonwealth prior to scheduled maturity on and after February 15, 2020, as a whole or in part (and if in part, within one or more maturities) at any time and from time to time, in any order of maturity determined by the Commonwealth and by lot within a maturity in such manner as the Commonwealth in its discretion may determine, on at least 30 days, (but not more than 60 days) notice, at a redemption price equal to par (100% of stated principal amount) plus accrued interest to the date fixed for redemption.

Extraordinary Optional Redemption – First Series B Bonds

The First Series B Bonds are subject to redemption prior to maturity at the option of the Commonwealth, in whole or in part, upon the occurrence of an Extraordinary Event (as defined below), at a redemption price (the “Extraordinary Redemption Price”) equal to the greater of:

(1) 100% of the principal amount of the First Series B Bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the First Series B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such First Series B Bonds are to be redeemed, discounted to the date on which such First Series B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below) plus 100 basis points;

plus, in each case, accrued interest on such First Series B Bonds to be redeemed to the redemption date.

An “Extraordinary Event” will have occurred if Section 54AA or Section 6431 of the Internal Revenue Code of 1986, as amended (the “Code”) (as such Sections were added by Section 1531 of ARRA, pertaining to “Build America Bonds”) is modified, amended or interpreted in a manner pursuant to which the Commonwealth’s 35% Subsidy Payments from the United States Treasury in connection with the then outstanding First Series B Bonds are reduced or eliminated.

"Treasury Rate" means, with respect to any redemption date for First Series B Bonds, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue (defined below), assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price (defined below), as calculated by the designated Investment Banker (defined below).

"Comparable Treasury Issue" means, with respect to any redemption date for particular First Series B Bonds, the United States Treasury security or securities selected by the Designated Investment Banker that have an actual or interpolated maturity comparable to the remaining average life of the subject First Series B Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of maturity comparable to the remaining average life of the First Series B Bonds to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption of First Series B Bonds, (i) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations (defined below), the average of such quotations for the applicable redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (ii) if the Designated Investment Bankers obtains fewer than four Reference Treasury Dealer Quotations, the average of all such quotations.

"Designated Investment Banker" means one of the Reference Treasury Dealers appointed by the Commonwealth.

"Reference Treasury Dealer" means each of the four firms, specified by the Commonwealth from time to time, that are primary United States government securities dealers in The City of New York (each a "Primary Treasury Dealer"); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the Commonwealth will specify a substitute Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for First Series B Bonds, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 P.M., New York City time, on the third Business Day preceding such redemption date.

Interest Rate and Bidding Details

Each bidder shall designate a rate of interest per annum to be paid on the Bonds of each maturity, subject to the following limitations:

(i) all Bonds of the same maturity date must bear the same rate of interest and no one Bond shall bear more than one rate of interest;

(ii) no interest rate shall be other than a whole multiple of one-twentieth (1/20) or one-eighth (1/8) of one percent (1%) and a zero rate of interest may not be named; and

(iii) the reoffering price for First Series A Bonds of any maturity must be greater than 98½% and less than 119% of that maturity's par value.

(iv) for bids submitted for the First Series B Bonds, each bid must specify the issue price (reoffering price) of each maturity for such Bond, and the reoffering price must be greater than 98½% of that maturity's par value and to comply with the provisions of the Code set forth in Section 54AA, such reoffering price cannot exceed the par amount of such maturity by more than as follows:

Maturity Date (February 15)	Maximum Reoffering Price	Maturity Date (February 15)	Maximum Reoffering Price
2011	100.00%	2016	101.25%
2012	100.25%	2017	101.50%
2013	100.50%	2018	101.75%
2014	100.75%	2019	102.00%
2015	101.00%	2020 through 2030 (inclusive)	102.25%

No bid for the Bonds at a price less than 98½% of their par value, exclusive of accrued interest, will be considered. Bids may specify any number of interest rates subject to (i) through (iv) above. No bid will be considered which does not offer to purchase all of the Bonds (of both series).

Bond Insurance

If the successful bidder chooses to obtain municipal bond insurance or another form of credit enhancement unconditionally and irrevocably guaranteeing payment of the principal of and interest on the Bonds, any purchase of such credit enhancement shall be at the sole option and expense of the successful bidder. If the Bonds are to be subject to credit enhancement, the successful bidder shall pay the premium and other costs therefore prior to the delivery of the Bonds.

If the successful bidder obtains such credit enhancement, it shall promptly advise the Commonwealth and the Financial Advisor of the cost of such credit enhancement, and shall provide such further information related thereto as the Commonwealth may request, including information necessary to enable the Commonwealth to compute the yield on the Bonds as affected, if at all, by such credit enhancement.

Failure of the Bonds to be so insured or of any such credit enhancement to be issued shall not in any manner relieve the successful bidder of its contractual obligations arising from the Commonwealth's acceptance of its bid for the purchase of the Bonds, nor shall any change in the ratings provided by any rating agency with respect to any such credit enhancement provider occurring between the time of the award of the Bonds and the time of their delivery in any manner relieve the successful bidder of such contractual obligations.

Electronic Bidding Procedure

Solely as an accommodation to bidders, the Commonwealth will receive bids delivered electronically through Parity. Further information about Parity, including any fee charged and applicable requirements, may be obtained from:

i-Deal LLC
1359 Broadway
2nd Floor
New York, NY 10018
Phone: (212) 849-5021

All electronic bids must be delivered via Parity. If any provision of this Notice of Sale conflicts with information provided by Parity, this Notice of Sale shall control. Each bidder submitting an electronic bid agrees by doing so that it is solely responsible for all arrangements with (including any charges by) Parity, that the Commonwealth does not endorse or encourage the use of Parity, and that Parity is not acting as an agent of the Commonwealth. Instructions for submitting electronic bids must be obtained from Parity, and the Commonwealth does not assume any responsibility for ensuring or verifying bidder compliance with the procedures of Parity. The Commonwealth shall be entitled to assume that any bid received via Parity has been made by a duly authorized agent of the bidder. Acceptance of electronic bids shall be subject to the limitations set forth in **"Warnings Regarding Electronic Bids"** below.

Warnings Regarding Electronic Bids

The Commonwealth and Bond Counsel assume no responsibility for any error contained in any bid submitted electronically, or for failure of any bid to be transmitted or received at the official time for receipt of bids. The Commonwealth assumes no responsibility for informing any bidders prior to the deadline for receiving bids that its bid is incomplete or not received.

The Commonwealth will accept bids in electronic form only through Parity on the official bid form created for such purpose by Parity. Each bidder, by submitting an electronic bid, understands and agrees that in doing so it is solely responsible for all arrangements with Parity, that the Commonwealth neither endorses nor explicitly encourages the use of Parity, and that Parity is not acting as agent of the Commonwealth. Instructions and forms for submitting electronic bids must be obtained from Parity, and the Commonwealth assumes no responsibility for ensuring or verifying bidder compliance with the procedures of Parity. The Commonwealth shall assume that any bid received though Parity has been made by a duly authorized agent of the bidder.

Reoffering and Sale of Bonds to Public

Within thirty minutes after notification of award of the Bonds the successful bidder (the "Purchaser") shall provide to the Commonwealth the initial offering price to the public (excluding bond houses and brokers or similar persons or organizations acting as wholesalers or underwriters) for each maturity of the Bonds (the "Initial Reoffering Prices") and certain other information to enable the Commonwealth to compute the yield on the Bonds for federal income tax law purposes. The Purchaser will be required to provide a certificate regarding the issue price of the Bonds prior to settlement for the Bonds in form satisfactory to the Commonwealth and Bond Counsel establishing that the Purchaser has made a bona fide public offering of the Bonds at the initial reoffering prices and that, as of the date of the award of the Bonds, the Purchaser reasonably expected that a substantial amount (at least 10 percent) of each maturity of the Bonds would be sold to the public at the initial reoffering prices.

Each bidder, by the submission of a bid, agrees that if it is the Purchaser, it will make a *bona fide* public offering of the Bonds at prices not greater than the Initial Reoffering Prices, offer the Bonds only pursuant to the Official Statement and only in jurisdictions where the offer is legal, and deliver a copy of the Official Statement to each person or entity that purchases the Bonds from the Purchaser as required by Securities and Exchange Commission Rule 15c2-12. The Purchaser shall abide by all rules of the Municipal Securities Rulemaking Board ("MSRB") in connection with the issuance and sale of the Bonds, including the delivery to the MSRB of the Official Statement and any advance refunding documents.

Basis of Awards

Award of the Bonds will be made on or before 4:00 P.M. Eastern Standard Time, on January 13, 2010 or, in the event of the announcement of an Amended Bid Date, the date specified in the Amended Notice. The Bonds will be sold to the bidder making a bid conforming to the terms of the offering which, on the basis of the lowest net effective interest rate for the Bonds, determined in the manner hereinafter stated, is the best bid, subject to the right of the undersigned in their sole discretion to reject any and all bids. The net effective interest rate for the Bonds shall be the interest rate determined on a true interest cost ("TIC") basis by doubling the semi-annual interest rate, compounded semi-annually, necessary to discount the debt service payments to the date of delivery of the Bonds, January 21, 2010, unless otherwise announced in an amended notice, to the price bid, including interest accrued to the date of delivery, if any. In the event of more than one bid specifying such lowest rate, the Bonds will be awarded to the bidder whose bid is selected by lot from among all such lowest bids.

The Commonwealth reserves the right in its sole discretion to waive any minor errors or irregularities in form or content of any bid. No sealed, telephone, facsimile, telegraph or personal delivery bids will be accepted. All bids must be submitted electronically through the PARITY web site.

Good Faith Deposit

The successful bidder (the "Purchaser") is required to submit a good faith deposit in an amount equal to $1,000,000 (the "Good Faith Deposit") to the Commonwealth in the form of a wire transfer, which must be received no later than 11:00 A.M. Eastern Standard Time on the next business day following the verbal award of the Bonds. If the Good Faith Deposit is not received by such time, the Commonwealth, at its sole discretion, may revoke its acceptance of the Purchaser's proposal. No interest on the Good Faith Deposit will accrue to the Purchaser. The Good Faith Deposit will be applied to the purchase price of the Bonds. In the event the Purchaser fails to honor the accepted proposal, the Good Faith Deposit will be retained by the Commonwealth.

Official Statement and Continuing Disclosure - SEC Rule 15c2-12

The Preliminary Official Statement dated January 5, 2010, issued with respect to the Bonds (the "Preliminary Official Statement"), has been deemed final by the Commonwealth as of its date for purposes of the

Rule, except for the omission of information as permitted by the Rule, but is subject to revision, amendment, and completion in the final Official Statement (hereinafter the "Official Statement") to be prepared with respect to the Bonds. A reasonable number of copies (not to exceed 1,000) of the Official Statement, to be dated as of a date prior to settlement, will be furnished to the Purchaser within seven business days after the sale date. Copies of the Official Statement in excess of 1,000 will be furnished at the request of the Purchaser at its own expense. The Purchaser will be required to provide pricing information necessary for the Commonwealth to complete the Official Statement.

In order to assist bidders in complying with the Rule, the Commonwealth will execute a written Continuing Disclosure Agreement to provide or cause to be provided, in accordance with the Rule, certain annual financial information and timely notices of the occurrence of certain events, if material, with respect to the Bonds. A description of the Continuing Disclosure Agreement is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement.

CUSIP Numbers

CUSIP numbers will be assigned at the Purchaser's expense. The CUSIP numbers will be printed on the Bonds, provided, however, that incorrect numbers shall not constitute grounds for a Purchaser of the Bonds to refuse delivery thereof.

Delivery of Bonds

Bond certificates will be delivered through the Loan and Transfer Agent to DTC using DTC's Fast Automated Security Transfer (FAST) System. Payment for the Bonds must be made by wire in immediately available funds for credit at Wells Fargo Bank, National Association, Loan and Transfer Agent, in Pittsburgh, Pennsylvania, at 10:00 A.M., Eastern Standard Time, on the Closing Date, or at such other place and time as may be agreed upon with the successful bidder.

The Purchaser shall have the right, at its option, to cancel its obligation to purchase the Bonds if the Commonwealth shall fail to tender the Bonds for delivery within 60 days from the date herein fixed for the receipt of the bids, and in such event, the Purchaser shall only be entitled to the return of its Deposit, without interest, and shall have no right of action against the Commonwealth.

Legal Opinions

The Commonwealth will deliver to the Purchaser without charge: (i) the opinion of the Attorney General of the Commonwealth and (ii) the opinion of Obermayer Rebmann Maxwell & Hippel LLP, Philadelphia, Pennsylvania, appointed by the Commonwealth as Bond Counsel, both substantially in the forms of their opinions set forth as appendices to the Preliminary Official Statement.

Closing Documents

The Bonds are offered subject to the delivery at settlement by the Commonwealth of (i) a certificate stating that there is no litigation pending affecting the validity of the Bonds or their issuance and sale to the Purchaser; (ii) a certification by the Secretary of the Budget that the financial statements contained in the Official Statement accurately reflect the conditions and facts they purport to reflect, that the estimates contained therein, in light of the information available, are believed to be reliable and that there have been no material adverse changes in the financial position of the Commonwealth since the dates of such financial statements that has not been disclosed in the Official Statement; (iii) a certification by the Governor, the Auditor General and the State Treasurer that the Official Statement, except as to the financial statements contained therein, contains no untrue statement of a material fact and does not omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading; and (iv) a Continuing Disclosure Agreement to provide or cause to be provided certain annual financial information and timely notices of the occurrence of certain events, if material, with respect to the Bonds.

Prior to settlement the Purchaser will be required to deliver the certificate referred to under the caption "Reoffering and Sale of Bonds to Public" above.

Copies of Documents

Additional information and copies of the Preliminary Official Statement, which includes the Official Bid Form as Appendix H, issued in connection with the Bonds, may be obtained from the Loan and Transfer Agent, Wells Fargo Bank, National Association, Pittsburgh, Pennsylvania (Telephone 412-291-2036) or from the Office of the Budget, Seventh Floor, Verizon Tower, Harrisburg, Pennsylvania 17101 (Telephone 717-787-7342). The Preliminary Official Statement may also be downloaded from the Office of the Budget area on the Commonwealth's site on the world wide web, http://www.budget.state.pa.us.

EDWARD G. RENDELL
Governor

ROBERT M. McCORD
State Treasurer

JACK WAGNER
Auditor General

Dated: January 5, 2010

AMENDED AND RESTATED
NOTICE OF SALE
$900,000,000*
Commonwealth of Pennsylvania
General Obligation Bonds
$295,865,000* First Series A of 2010
(Federally Tax – Exempt)
and
$604,135,000* First Series B of 2010
(Federally Taxable – Build America Bonds)

NOTICE OF AMENDMENT

Based on prevailing market conditions the Commonwealth is amending the original Notice of Sale as follows:

(i) to alter the optional redemption provision of the First Series B Bonds;
(ii) to authorize bidders with respect to the First Series B Bonds to request that specified serial maturities of such Bonds be redesignated by the Commonwealth as mandatory sinking fund principal amortization amounts of specified term bond maturities of such Bonds.

To facilitate the preparation of bids for the Bonds and provide clarity of bid specifications, the entirety of the Notice of Sale is hereby amended and restated so that this Amended and Restated Notice of Sale dated January 8, 2010 shall replace in its entirety the Notice of Sale dated January 5, 2010.

Electronic bids will be received by the Commonwealth of Pennsylvania (the "Commonwealth"), via *PARITY*® ("Parity") in the manner described below, up to **11:00 A.M.**, Eastern Standard Time, on

Wednesday, January 13, 2010 (the "Bid Date")

or such other subsequent date (the "Amended Bid Date") to be announced in an Amended Notice of Sale (as hereinafter defined) to be distributed not later than 4:00 P.M. on the last business day prior to the Bid Date, for the purchase of all, but not less than all, of the $295,865,000* aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, First Series A of 2010 (federally tax-exempt), (the "First Series A Bonds") and the $604,135,000* aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, First Series B of 2010 (federally taxable – Build America Bonds), (the "First Series B Bonds" and together with the First Series A Bonds, collectively, the "Bonds").

Bids must be submitted in accordance with this Notice of Sale prior to 11:00 A.M. Eastern Standard Time on the Bid Date. No bid will be accepted after the bid deadline.

Right to Amend

The Commonwealth reserves the right, in its sole discretion, to:

1. change the date it will receive and open electronic bids to purchase the Bonds;
2. increase or decrease the principal amount of the First Series A Bonds, the First Series B Bonds, or both Bonds being offered;
3. adjust the respective par amounts of the First Series A Bonds and the First Series B Bonds based on prevailing market conditions at the time of the sale of the Bonds, including without limitation, the reallocation of serial maturities of the First Series A Bonds and the First Series B Bonds as between such two series;

* Preliminary, subject to change

4. determine whether the First Series B Bonds will be issued as federally taxable Build America Bonds or as federally tax exempt Bonds based on prevailing market conditions at the time of sale of the First Series B Bonds; and,

5. determine the appropriate redemption options relative to the First Series B Bonds based on prevailing market conditions at the time of the sale of the First Series B Bonds.

Changes to the Bonds being offered, if made, will be contained in an Amended Notice of Sale (the "Amended Notice") to be transmitted via the Bond Buyer Wire not later than 4:00 P.M. on the last business day prior to the Bid Date. The Amended Notice shall (i) state the Amended Bid Date (a date not before January 13, 2010) and the time by which bids to purchase the Bonds must be received by the Commonwealth; (ii) state the revised principal amounts; (iii) state the proposed closing date; and (iv) supplement and update the information contained herein to the extent deemed necessary by the Commonwealth.

Security

The Bonds will be direct and general obligations of the Commonwealth, issued pursuant to and within the applicable debt limits prescribed by Section 7 of Article VIII of the Constitution of Pennsylvania and various implementing acts of the General Assembly.

Bond Details

The Bonds will be dated the date of issuance and delivery, and will bear such rate or rates of interest, payable semiannually on August 15 and February 15 in each year commencing August 15, 2010, as shall be fixed by the purchaser in its proposal for the purchase of the Bonds. The Bonds shall mature serially on February 15 in the respective years and in the respective amounts as set forth below:

First Series A Bonds*

Due February 15*	Principal Amount*	Due February 15*	Principal Amount*
2011	$24,045,000	2016	$34,600,000
2012	28,465,000	2017	36,330,000
2013	29,890,000	2018	38,145,000
2014	31,385,000	2019	40,055,000
2015	32,950,000		

First Series B Bonds*

Due February 15*	Principal Amount*	Due February 15*	Principal Amount*
2020	$42,055,000	2026	$56,705,000
2021	44,050,000	2027	59,995,000
2022	46,205,000	2028	63,505,000
2023	48,510,000	2029	67,250,000
2024	50,980,000	2030	71,255,000
2025	53,625,000		

*Preliminary, subject to change. See "Adjustment of Principal Amounts."

Delivery of the Bonds is proposed to occur on January 21, 2010, unless another date is set forth in any Amended Notice (the "Closing Date").

The Bonds will be issued and sold by means of a book-entry only system with no distribution of Bond certificates made to the public. Bond certificates representing the aggregate principal amount of the Bonds maturing in each year will be issued and fully registered as to principal and interest in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), a depository registered with the Securities and Exchange Commission. Individual beneficial ownership of the Bonds will be in principal amounts of $5,000 or integral multiples thereof within a maturity pursuant to the rules and procedures established between DTC and its participants. Transfers of beneficial ownership will be effected through records maintained by DTC and its participants pursuant to rules and procedures established by DTC. The responsibility for maintaining, reviewing and supervising such records rests collectively with DTC and its participants. The winning bidder, as a condition to the delivery of the Bonds, shall be required to deposit the Bond certificates in its account at DTC, registered in the name of Cede & Co. Interest on the Bonds will be payable on each semi-annual interest payment date and principal of the Bonds will be paid annually as set forth in the foregoing maturity schedule, in same-day funds to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to the beneficial owners by participants of DTC will be the responsibility of such DTC participants and other nominees of beneficial owners. The Commonwealth will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

Serial Bonds and/or Term Bonds - First Series B Bonds

A bidder may aggregate consecutive principal maturities of the First Series B Bonds for which such bidder bids the same interest rate, into term bonds. Each such term bond shall mature on the final maturity date of such consecutive maturities in an aggregate principal amount equal to the sum of the principal amounts of such consecutive maturities. Each such term bond shall be subject to mandatory sinking fund redemption prior to maturity, in part, on the dates and in the amounts that would have been consecutive serial maturities had no term bond designation been made (other than the final such maturity, which shall be the maturity date of such term bond), at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest thereon to the date fixed for redemption. Such redemption will be calculated on a pro-rata basis within term maturities. Notice of redemption shall be given as provided in the resolution of the Commonwealth authorizing the Bonds.

Build America Bonds

The Commonwealth has elected to designate the First Series B Bonds as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 ("ARRA") and to receive payments ("Subsidy Payments") from the United States Treasury in connection therewith. Pursuant to ARRA, the Commonwealth is to receive a Subsidy Payment from the United States Treasury, contemporaneously with each Interest Payment Date for the First Series B Bonds, equal to 35% of the interest payable on the First Series B Bonds on such date. The Subsidy Payments do not constitute a full faith and credit guarantee of the United States of America, but are required to be paid by the United States Treasury under ARRA. If the Subsidy Payments from the United States Treasury are reduced or eliminated, the First Series B Bonds are subject to extraordinary optional redemption.

Optional Redemption

The First Series A Bonds are not subject to redemption prior to maturity.

The First Series B Bonds are subject to redemption prior to their maturity, at any time, at the option of the Commonwealth, from any source of available funds, in whole, or in part from maturities designated by the Commonwealth, and within such maturities on a pro rata basis, at the "Make-Whole Redemption Price" described below.

The "Make-Whole Redemption Price" means the amount equal to the greater of the following:

(1) the issue price of the First Series B Bonds (but not less than 100%) of the principal amount of the First Series B Bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest on the First Series B Bonds to be redeemed to the maturity date of such First Series B Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the First Series B Bonds are to be redeemed, discounted to the date on which the First Series B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate (defined below), plus 25 basis points; plus, in each case, accrued interest on the First Series B Bonds to be redeemed to the redemption date.

For purpose of determining the Make-Whole Redemption Price, the following definition applies:

"Treasury Rate" means, with respect to any redemption date for a particular First Series B Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (excluding inflation-indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the First Series B Bonds to be redeemed; provided, however that if the period from the redemption date to the maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

At the request of the paying agent of the First Series B Bonds, the Make-Whole Redemption Price of the First Series B Bonds shall be determined by an independent accounting firm, investment banking firm or financial advisor retained by the Commonwealth at the Commonwealth's expense to calculate such redemption price. The Commonwealth may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and shall not be liable for such reliance.

Extraordinary Optional Redemption – First Series B Bonds

The First Series B Bonds are subject to redemption prior to maturity at the option of the Commonwealth, in whole, or in part from maturities designated by the Commonwealth, and within such maturities on a pro rata basis, upon the occurrence of an Extraordinary Event (as defined below), at a redemption price (the "Extraordinary Redemption Price") equal to the greater of:

(1) the issue price of the First Series B Bonds (but not less than 100%) of the principal amount of the First Series B Bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest on the First Series B Bonds to be redeemed to the maturity date of such First Series B Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the First Series B Bonds are to be redeemed, discounted to the date on which the First Series B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate (as defined above), plus 100 basis points; plus, in each case, accrued interest on the First Series B Bonds to be redeemed to the redemption date.

An "Extraordinary Event" will have occurred if Section 54AA or Section 6431 of the Internal Revenue Code of 1986, as amended (the "Code") (as such Sections were added by Section 1531 of ARRA, pertaining to "Build America Bonds") is modified, amended or interpreted in a manner pursuant to which the Commonwealth's 35% Subsidy Payments from the United States Treasury in connection with the then outstanding First Series B Bonds are reduced or eliminated.

Interest Rate and Bidding Details

Each bidder shall designate a rate of interest per annum to be paid on the Bonds of each maturity, subject to the following limitations:

(i) all Bonds of the same maturity date must bear the same rate of interest and no one Bond shall bear more than one rate of interest;

(ii) no interest rate shall be other than a whole multiple of one-twentieth (1/20) or one-eighth (1/8) of one percent (1%) and a zero rate of interest may not be named; and

(iii) the reoffering price for First Series A Bonds of any maturity must be greater than 98½% and less than 119% of that maturity's par value.

(iv) for bids submitted for the First Series B Bonds, each bid must specify the issue price (reoffering price) of each maturity for such Bond, and the reoffering price must be greater than 98½% of that maturity's par value and to comply with the provisions of the Code set forth in Section 54AA, such reoffering price cannot exceed the par amount of such maturity by more than as follows:

Maturity Date (February 15)	Maximum Reoffering Price	Maturity Date (February 15)	Maximum Reoffering Price
2011	100.00%	2016	101.25%
2012	100.25%	2017	101.50%
2013	100.50%	2018	101.75%
2014	100.75%	2019	102.00%
2015	101.00%	2020 through 2030 (inclusive)	102.25%

No bid for the Bonds at a price less than 98½% of their par value, exclusive of accrued interest, will be considered. Bids may specify any number of interest rates subject to (i) through (iv) above. No bid will be considered which does not offer to purchase all of the Bonds (of both series).

Bond Insurance

If the successful bidder chooses to obtain municipal bond insurance or another form of credit enhancement unconditionally and irrevocably guaranteeing payment of the principal of and interest on the Bonds, any purchase of such credit enhancement shall be at the sole option and expense of the successful bidder. If the Bonds are to be subject to credit enhancement, the successful bidder shall pay the premium and other costs therefore prior to the delivery of the Bonds.

If the successful bidder obtains such credit enhancement, it shall promptly advise the Commonwealth and the Financial Advisor of the cost of such credit enhancement, and shall provide such further information related thereto as the Commonwealth may request, including information necessary to enable the Commonwealth to compute the yield on the Bonds as affected, if at all, by such credit enhancement.

Failure of the Bonds to be so insured or of any such credit enhancement to be issued shall not in any manner relieve the successful bidder of its contractual obligations arising from the Commonwealth's acceptance of its bid for the purchase of the Bonds, nor shall any change in the ratings provided by any rating agency with respect to any such credit enhancement provider occurring between the time of the award of the Bonds and the time of their delivery in any manner relieve the successful bidder of such contractual obligations.

Electronic Bidding Procedure

Solely as an accommodation to bidders, the Commonwealth will receive bids delivered electronically through Parity. Further information about Parity, including any fee charged and applicable requirements, may be obtained from:

i-Deal LLC
1359 Broadway
2nd Floor
New York, NY 10018

Phone: (212) 849-5021

All electronic bids must be delivered via Parity. If any provision of this Notice of Sale conflicts with information provided by Parity, this Notice of Sale shall control. Each bidder submitting an electronic bid agrees by doing so that it is solely responsible for all arrangements with (including any charges by) Parity, that the Commonwealth does not endorse or encourage the use of Parity, and that Parity is not acting as an agent of the Commonwealth. Instructions for submitting electronic bids must be obtained from Parity, and the Commonwealth does not assume any responsibility for ensuring or verifying bidder compliance with the procedures of Parity. The Commonwealth shall be entitled to assume that any bid received via Parity has been made by a duly authorized agent of the bidder. Acceptance of electronic bids shall be subject to the limitations set forth in **"Warnings Regarding Electronic Bids"** below.

Warnings Regarding Electronic Bids

The Commonwealth and Bond Counsel assume no responsibility for any error contained in any bid submitted electronically, or for failure of any bid to be transmitted or received at the official time for receipt of bids. The Commonwealth assumes no responsibility for informing any bidders prior to the deadline for receiving bids that its bid is incomplete or not received.

The Commonwealth will accept bids in electronic form only through Parity on the official bid form created for such purpose by Parity. Each bidder, by submitting an electronic bid, understands and agrees that in doing so it is solely responsible for all arrangements with Parity, that the Commonwealth neither endorses nor explicitly encourages the use of Parity, and that Parity is not acting as agent of the Commonwealth. Instructions and forms for submitting electronic bids must be obtained from Parity, and the Commonwealth assumes no responsibility for ensuring or verifying bidder compliance with the procedures of Parity. The Commonwealth shall assume that any bid received though Parity has been made by a duly authorized agent of the bidder.

Reoffering and Sale of Bonds to Public

Within thirty minutes after notification of award of the Bonds the successful bidder (the "Purchaser") shall provide to the Commonwealth the initial offering price to the public (excluding bond houses and brokers or similar persons or organizations acting as wholesalers or underwriters) for each maturity of the Bonds (the "Initial Reoffering Prices") and certain other information to enable the Commonwealth to compute the yield on the Bonds for federal income tax law purposes. The Purchaser will be required to provide a certificate regarding the issue price of the Bonds prior to settlement for the Bonds in form satisfactory to the Commonwealth and Bond Counsel establishing that the Purchaser has made a bona fide public offering of the Bonds at the initial reoffering prices and that, as of the date of the award of the Bonds, the Purchaser reasonably expected that a substantial amount (at least 10 percent) of each maturity of the Bonds would be sold to the public at the initial reoffering prices.

Each bidder, by the submission of a bid, agrees that if it is the Purchaser, it will make a *bona fide* public offering of the Bonds at prices not greater than the Initial Reoffering Prices, offer the Bonds only pursuant to the Official Statement and only in jurisdictions where the offer is legal, and deliver a copy of the Official Statement to each person or entity that purchases the Bonds from the Purchaser as required by Securities and Exchange Commission Rule 15c2-12. The Purchaser shall abide by all rules of the Municipal Securities Rulemaking Board ("MSRB") in connection with the issuance and sale of the Bonds, including the delivery to the MSRB of the Official Statement and any advance refunding documents.

Basis of Awards

Award of the Bonds will be made on or before 4:00 P.M. Eastern Standard Time, on January 13, 2010 or, in the event of the announcement of an Amended Bid Date, the date specified in the Amended Notice. The Bonds will be sold to the bidder making a bid conforming to the terms of the offering which, on the basis of the lowest net effective interest rate for the Bonds, determined in the manner hereinafter stated, is the best bid, subject to the right of the undersigned in their sole discretion to reject any and all bids. The net effective interest rate for the Bonds shall be the interest rate determined on a true interest cost ("TIC") basis by doubling the semi-annual interest rate, compounded semi-annually, necessary to discount the debt service payments to the date of delivery of the Bonds, January 21, 2010, unless otherwise announced in an amended notice, to the price bid, including interest accrued to the date of delivery, if any. In the event of more than one bid specifying such lowest rate, the Bonds will be awarded to the bidder whose bid is selected by lot from among all such lowest bids.

The Commonwealth reserves the right in its sole discretion to waive any minor errors or irregularities in form or content of any bid. No sealed, telephone, facsimile, telegraph or personal delivery bids will be accepted. All bids must be submitted electronically through the PARITY web site.

Good Faith Deposit

The successful bidder (the "Purchaser") is required to submit a good faith deposit in an amount equal to $1,000,000 (the "Good Faith Deposit") to the Commonwealth in the form of a wire transfer, which must be received no later than 11:00 A.M. Eastern Standard Time on the next business day following the verbal award of the Bonds. If the Good Faith Deposit is not received by such time, the Commonwealth, at its sole discretion, may revoke its acceptance of the Purchaser's proposal. No interest on the Good Faith Deposit will accrue to the Purchaser. The Good Faith Deposit will be applied to the purchase price of the Bonds. In the event the Purchaser fails to honor the accepted proposal, the Good Faith Deposit will be retained by the Commonwealth.

Official Statement and Continuing Disclosure - SEC Rule 15c2-12

The Preliminary Official Statement dated January 5, 2010, issued with respect to the Bonds (the "Preliminary Official Statement"), has been deemed final by the Commonwealth as of its date for purposes of the Rule, except for the omission of information as permitted by the Rule, but is subject to revision, amendment, and completion in the final Official Statement (hereinafter the "Official Statement") to be prepared with respect to the Bonds. A reasonable number of copies (not to exceed 1,000) of the Official Statement, to be dated as of a date prior to settlement, will be furnished to the Purchaser within seven business days after the sale date. Copies of the Official Statement in excess of 1,000 will be furnished at the request of the Purchaser at its own expense. The Purchaser will be required to provide pricing information necessary for the Commonwealth to complete the Official Statement.

In order to assist bidders in complying with the Rule, the Commonwealth will execute a written Continuing Disclosure Agreement to provide or cause to be provided, in accordance with the Rule, certain annual financial information and timely notices of the occurrence of certain events, if material, with respect to the Bonds. A description of the Continuing Disclosure Agreement is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement.

CUSIP Numbers

CUSIP numbers will be assigned at the Purchaser's expense. The CUSIP numbers will be printed on the Bonds, provided, however, that incorrect numbers shall not constitute grounds for a Purchaser of the Bonds to refuse delivery thereof.

Delivery of Bonds

Bond certificates will be delivered through the Loan and Transfer Agent to DTC using DTC's Fast Automated Security Transfer (FAST) System. Payment for the Bonds must be made by wire in immediately available funds for credit at Wells Fargo Bank, National Association, Loan and Transfer Agent, in Pittsburgh, Pennsylvania, at 10:00 A.M., Eastern Standard Time, on the Closing Date, or at such other place and time as may be agreed upon with the successful bidder.

The Purchaser shall have the right, at its option, to cancel its obligation to purchase the Bonds if the Commonwealth shall fail to tender the Bonds for delivery within 60 days from the date herein fixed for the receipt of the bids, and in such event, the Purchaser shall only be entitled to the return of its Deposit, without interest, and shall have no right of action against the Commonwealth.

Legal Opinions

The Commonwealth will deliver to the Purchaser without charge: (i) the opinion of the Attorney General of the Commonwealth and (ii) the opinion of Obermayer Rebmann Maxwell & Hippel LLP, Philadelphia, Pennsylvania, appointed by the Commonwealth as Bond Counsel, both substantially in the forms of their opinions set forth as appendices to the Preliminary Official Statement.

Closing Documents

The Bonds are offered subject to the delivery at settlement by the Commonwealth of (i) a certificate stating that there is no litigation pending affecting the validity of the Bonds or their issuance and sale to the Purchaser; (ii) a certification by the Secretary of the Budget that the financial statements contained in the Official Statement accurately reflect the conditions and facts they purport to reflect, that the estimates contained therein, in light of the information available, are believed to be reliable and that there have been no material adverse changes in the financial position of the Commonwealth since the dates of such financial statements that has not been disclosed in the Official Statement; (iii) a certification by the Governor, the Auditor General and the State Treasurer that the Official Statement, except as to the financial statements contained therein, contains no untrue statement of a material fact and does not omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading; and (iv) a Continuing Disclosure Agreement to provide or cause to be provided certain annual financial information and timely notices of the occurrence of certain events, if material, with respect to the Bonds.

Prior to settlement the Purchaser will be required to deliver the certificate referred to under the caption "Reoffering and Sale of Bonds to Public" above.

Copies of Documents

Additional information and copies of the Preliminary Official Statement, which includes the Official Bid Form as Appendix H, issued in connection with the Bonds, may be obtained from the Loan and Transfer Agent, Wells Fargo Bank, National Association, Pittsburgh, Pennsylvania (Telephone 412-291-2036) or from the Office of the Budget, Seventh Floor, Verizon Tower, Harrisburg, Pennsylvania 17101 (Telephone 717-787-7342). The Preliminary Official Statement may also be downloaded from the Office of the Budget area on the Commonwealth's site on the world wide web, http://www.budget.state.pa.us.

EDWARD G. RENDELL
Governor

ROBERT M. McCORD
State Treasurer

JACK WAGNER
Auditor General

Dated: January 8, 2010