NEW ISSUE – BOOK-ENTRY ONLY

Ratings:	Moody's:	Aa1
	Standard & Poor's:	AA
	Fitch:	AA+

In the opinion of Stevens & Lee, a professional corporation, Reading, Pennsylvania, Bond Counsel, assuming continuing compliance by the Commonwealth with certain covenants to comply with provisions of the Internal Revenue Code of 1986, as amended (the "Code") and any applicable regulations thereunder, interest on the Second Series A Bonds is not includable in gross income under Section 103(a) of the Code and interest on the Second Series A Bonds is not an item of tax preference for purposes of the federal individual and corporate alternative minimum taxes. See "Tax Matters" in this Official Statement. Other provisions of the Code may affect purchasers and holders of the Second Series A Bonds. See "Federal Income Tax Treatment of the Second Series A Bonds" herein for a brief description of these provisions. Interest on the Second Series B Bonds is includible in gross income for federal income tax purposes.

Under the laws of the Commonwealth of Pennsylvania, the Bonds and interest on the Bonds shall be free from taxation for State and local purposes within the Commonwealth of Pennsylvania, but this 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. Under the laws of the Commonwealth of Pennsylvania, profits, gains or income derived from the sale, exchange or other disposition of the Bonds shall be subject to State and local taxation within the Commonwealth of Pennsylvania For a more complete description, see "TAX MATTERS" herein.

$1,000,000,000
Commonwealth of Pennsylvania
General Obligation Bonds
Second Series of 2010
consisting of

$451,100,000

Second Series A of 2010
(Tax Exempt)

$548,900,000

Second Series B of 2010
(Federally Taxable – Build America Bonds – Issuer Subsidy)

Dated: Date of Issuance and Delivery

Due: May 1, as shown on the inside cover

The Second Series A Bonds and the Second 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 May 1 and November 1, commencing November 1, 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 Second Series A Bonds and the Second Series B Bonds are subject to redemption as set forth herein. See "THE BONDS – Optional Redemption" and "THE SECOND SERIES B BONDS – Extraordinary Optional Redemption" 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 Commonwealth has elected to designate the Second Series B Bonds as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 and to receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on the Second Series B Bonds. THE HOLDERS OF THE SECOND SERIES B BONDS ARE NOT ENTITLED TO A TAX CREDIT AS A RESULT OF OWNERSHIP OF THE SECOND SERIES B BONDS. SEE "THE BONDS – Build America Bonds" herein.

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 Stevens & Lee, a professional corporation, of Reading, 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 May 27, 2010.

Dated: May 19, 2010

$1,000,000,000
Commonwealth of Pennsylvania
General Obligation Bonds
Second Series of 2010
consisting of

$451,100,000 Second Series A of 2010
(Tax-Exempt)

MATURITY SCHEDULE
(Base CUSIP Number: 70914P)

Due May 1	Second Series A of 2010 Principal Amount	Interest Rate	Yield	CUSIP Number
2011	$37,905,000	2.000%	0.310%	MK5
2012	35,925,000	5.000	0.700	ML3
2013	37,005,000	5.000	1.050	MM1
2014	38,115,000	5.000	1.390	MN9
2015	39,255,000	5.000	1.760	MP4
2016	40,435,000	5.000	2.140	MQ2
2017	41,650,000	5.000	2.450	MR0
2018	42,895,000	5.000	2.650	MS8
2019	44,400,000	5.000	2.830	MT6
2020	45,955,000	5.000	2.980	MU3
2021	47,560,000	5.000	3.080	MV1

$548,900,000 Second Series B of 2010
(Federally Taxable – Build America Bonds – Issuer Subsidy)

MATURITY SCHEDULE
(Base CUSIP Number: 70914P)

Due May 1	Second Series B of 2010 Principal Amount	Interest Rate	Yield	CUSIP Number
2022	$49,940,000	4.500%	4.500%	MW9
2023	52,265,000	4.600	4.640	MX7
2024	54,770,000	4.700	4.740	MY5
2025	57,455,000	4.800	4.840	MZ2
2026	60,360,000	4.900	4.940	NA6

$274,110,000[(1)] 5.35% Term Bond due May 1, 2030
at 99.752 to yield 5.37% (CUSIP: 70914P NE8)

[(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:

Stevens & Lee
Reading, 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.................................. $1,000,000,000 Commonwealth of Pennsylvania, General Obligation Bonds, consisting of $451,100,000 Second Series A of 2010 (the "Second Series A Bonds") and $548,900,000 Second Series B of 2010 (the "Second Series B Bonds" and collectively with the Second 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	$805,000,000
Growing Greener Projects	$50,000,000
Pennvest Acts Projects..	$145,000,000

Redemption............................. The Second Series A Bonds are subject to optional redemption prior to maturity. The Second Series B Bonds are subject to optional redemption, extraordinary optional redemption and mandatory sinking fund redemption as set forth herein. See "THE BONDS – Optional Redemption, - Extraordinary Optional Redemption, 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 .... Stevens & Lee, Bond Counsel.
Tom Corbett, Attorney General of the Commonwealth of Pennsylvania.

Bond Ratings .... Moody's Investors Service Aa1
Standard & Poor's Rating Services, a division of the McGraw-Hill Companies....................AA
Fitch Ratings..AA+

Official Statement

$1,000,000,000
Commonwealth of Pennsylvania
General Obligation Bonds

$451,100,000 Second Series A of 2010
$548,900,000 Second 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 $1,000,000,000 aggregate principal amount of the Commonwealth's general obligation bonds consisting of $451,100,000 aggregate principal amount of (Tax-Exempt) Commonwealth of Pennsylvania General Obligation Bonds, Second Series A of 2010 (the "Second Series A Bonds"), and $548,900,000 aggregate principal amount of (Federally Taxable – Build America Bonds – Issuer Subsidy) Commonwealth of Pennsylvania General Obligation Bonds, Second Series B of 2010 (the "Second Series B Bonds" and collectively with the Second 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 May 1 and November 1, commencing November 1, 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 fifteenth (15^{th}) 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 Second 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 Second Series B Bonds, equal to 35% of the interest payable on the Second Series B Bonds on such date. The Internal Revenue Code of 1986, as amended (the "Code") imposes requirements on the Second Series B Bonds that the Commonwealth must continue to meet after the Second Series B Bonds are issued in order to receive the Subsidy Payments. Such requirements generally relate to the way that proceeds of the Second Series B Bonds must be invested and ultimately used. If the Commonwealth does not meet such requirements or make timely application for payment thereof, it is possible that the Commonwealth may not receive the Subsidy Payments. The United States Treasury is also permitted to net the Subsidy Payments against other liabilities of the Commonwealth. 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 Second Series B Bonds are subject to extraordinary optional redemption. See "Extraordinary Optional Redemption-Second Series B Bonds." **As a result of the Commonwealth's election to receive the Subsidy Payments, no tax credits will be available to holders of the Second Series B Bonds under Section 54AA(a) of the Code.**

Redemption Provisions

Second Series A Bonds

Optional Redemption

The Second Series A Bonds maturing in the years 2011 to 2020, inclusive, are not subject to redemption prior to maturity. The Second Series A Bonds, or portions thereof in integral multiples of $5,000, maturing on and after May 1, 2021, are subject to redemption at the option of the Commonwealth prior to scheduled maturity on and after May 1, 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.

Second Series B Bonds

Optional Redemption

The Second Series B Bonds, or portions thereof in integral multiples of $5,000, maturing on and after May 1, 2021, are subject to redemption at the option of the Commonwealth prior to scheduled maturity on and after May 1, 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 pro-rata 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

The Second 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 Second Series B Bonds (but not less than 100%) of the principal amount of the Second 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 Second Series B Bonds to be redeemed to the maturity date of such Second Series B Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the Second Series B Bonds are to be redeemed, discounted to the date on which the Second 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 below), plus 100 basis points; plus, in each case, accrued interest on the Second Series B Bonds to be redeemed to the redemption date.

An "Extraordinary Event" will have occurred if Section 54AA or Section 6431 of 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 Second Series B Bonds are reduced or eliminated.

"Treasury Rate" means, with respect to any redemption date for a particular Second 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 Second 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.

In addition to the notice of redemption to the registered owners of the Bonds, the Loan and Transfer Agent shall cause copies of the redemption notice to be sent by any one of facsimile transmission, or overnight delivery service, or certified mail with return receipt requested (or other similar means that can provide evidence of receipt) to all registered securities depositories then in the business of holding obligations similar to the Bonds, and to two or more national information services that disseminate redemption information; provided however, that failure to send such copies of the redemption notice or any defect therein shall not affect the validity of the redemption proceedings.

Mandatory Redemption

The Second Series B Bond maturing on May 1, 2030 is subject to mandatory redemption by the Commonwealth, prior to maturity, pro rata on May 1 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
2027	$63,400,000
2028	$66,660,000
2029	$70,150,000
2030*	$73,900,000

* 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 the Bonds to be redeemed at their addresses as 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 Bonds shall not affect the validity of the redemption proceedings of any other 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 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 Second 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 Second 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 Second 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 Second Series B Bonds. No defect affecting any particular Second 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 Second Series B Bonds.

No further interest shall accrue on any Second 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 Second Series B Bond shall have no rights except to receive payment of the redemption price and the unpaid interest accrued on such Second Series B Bond to the date fixed for redemption.

DTC Procedures

Investors should note that while DTC is the registered owner of the Second Series B Bonds, partial redemptions (including any sinking fund payments) of the Second 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 Second Series B Bonds be made in accordance with the pro rata redemption provisions described above. However, the selection of the Second 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 are 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 May 11, 2010, and May 19, 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)]
March 1, 2010
(In Millions)

Average Annual Tax Revenues Fiscal 2004-2009	$ 32,044.1
Times 1.75	56,077.18
Less: Net Debt Outstanding[(b)]	8,038.9
Debt Issuable Within Limit	$ 48,038.2

[(a)] As certified by the Auditor General on March 1, 2010 (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	$ 8,653.5	$ 19,029.9	$ 18,689.9
Furniture and Equipment	1,049.3	411.5	637.8	622.8
Transportation Assistance	9,672.8	2,972.8	6,700.0	6,580.0
Redevelopment Assistance	29,023.2	2,749.0	26,274.2	26,049.2
Community Colleges	35.8	28.0	7.8	7.8
Highway and Highway Bridge	24,186.9	2,312.5	21,874.4	21,774.2
Advance Construction Interstate	450.0	450.0	0	0
Flood Control	476.2	60.8	415.4	410.4
Site Development	150.0	150.0	0	0
Total	$ $92,727.5	$ 16,938.1	$ 74,939.5	$ 74,234.3

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

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	$ 580.0	$ 340.0	$ 0.0
Furniture and Equipment	15.0	0.0	15.0	0.0
Transportation Assistance	192.0	70.0	122.0	2.0
Redevelopment Assistance	325.0	100.0	225.0	0.0
Flood Control	30.0	0.0	30.0	25.0
Highway	0.0	0.0	0.0	0.0
Bridge	200.0	100.0	100.0	0.0
Total	$ 1,682.0	$ 850.0	$ 832.0	$ 27.0

[(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 $805.0 million aggregate principal amount of the Bonds under the Capital Budget, $27.0 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 $434.5 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, $140.5 million principal amount of debt will remain authorized and unissued thereunder.

The Pennvest Acts authorized the issuance of $400.0 million aggregate principal of debt for the purpose of making grants and loans for the acquisition, construction, improvement, expansion, extension, repair or rehabilitation of all or part of a project for the improvement of water supply and sewage treatment systems. See "USE OF PROCEEDS-Pennvest." To date, no bonds have been issued pursuant to the authority of the Pennvest Acts. Upon the issuance of $145.0 million of the Bonds pursuant to the Pennvest Acts, $255 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) $805,000,000 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";

(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"; and

(iii) $145,000,000 aggregate principal amount of the Bonds to provide for the making grants and loans for the acquisition, construction, improvement, expansion, extension, repair or rehabilitation of all or part of a project for the improvement of water supply and sewage treatment systems "Pennvest."

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 $805,000,000 aggregate principal amount of the Bonds issued for capital facilities: (i) $340,000,000 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) $15,000,000 aggregate principal amount of the Bonds is to be allocated to the Department of General Services and used to pay for original furniture and equipment; (iii) $225,000,000 aggregate principal amount of the Bonds is to be allocated to the Department of Community and Economic Development to fund redevelopment assistance projects; (iv) $120,000,000 aggregate principal amount of the Bonds is to be allocated to the Department of Transportation to fund transportation assistance projects; (v) $100,000,000 aggregate principal amount of the Bonds is to be allocated to the Department of Transportation to fund bridge projects; and (vi) $5,000,000 aggregate principal amount of the Bonds is to be allocated to the Department of Environmental Protection to fund flood control 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 (as defined in the Initial Resolution adopted by the Issuing Officials on May 11, 2010) 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.

Pennvest

A portion of the proceeds of the Bonds is dedicated to the purposes of the Pennvest Acts (as defined in the Initial Resolution adopted by the Issuing Officials on May 11, 2010) and to pay the costs of issuance of the Bonds allocated to such purposes. The proceeds from $145,000,000 aggregate principal amount of the Bonds to be issued for the Pennvest Acts will be deposited into the Water and Sewer Systems Assistance Bond Fund and applied to the costs of making grants and loans for the acquisition, construction, improvement, expansion, extension, repair or rehabilitation of all or part of a project for the improvement of water supply and sewage treatment systems. Pending application to the above purposes, the proceeds of the Bonds allocated to these purposes will be held by the State Treasurer in the Water and Sewer Systems Assistance 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 2009, 82 percent of the full-time salaried employees under the Governor's jurisdiction were covered by collective bargaining agreements or memoranda of understanding. Approximately 44 percent of state employees are represented by the American Federation of State, County and Municipal Employees ("AFSCME"). Approximately 62 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. Two of the awards took effect on July 1, 2007 and expire on June 30, 2011 and provide a 13 percent increase over the four year term of the agreements; which now expire on June 30, 2011. Another award runs from July 1, 2008 through June 30, 2011 and provides a 10 percent increase over the term of the contract. The fourth 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. The remaining interest arbitration unit involves a contract that expired in 2007 and remains in negotiations. Table 4 presents the number of approved and filled positions under the Governor's jurisdiction for the period 2004 through 2009.

Table 4
Filled Salaried Positions and Employees
Under the Governor's Jurisdiction[(a)]
2005-2009

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
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
2009	77,248	76,979	52,905	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 2010 refers to the fiscal year ending June 30, 2010.) 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 Commonwealth's independent public accounting firm, KPMG LLP, has not been engaged to perform and has not performed, since the date of its report on the Commonwealth's Comprehensive Annual Financial Report (CAFR), which is incorporated herein by reference, any procedures on the financial statements addressed in that report nor has it performed any other procedures specifically relating to this official statement. 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, 2009, have been filed with the Municipal Securities Rulemaking Board via its Electronic Municipal Market Access system ("EMMA") and are available from EMMA (http://www.emma.msrb.org) 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 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 1.8 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

On February 9, 2010, the Governor submitted to the General Assembly his proposed fiscal year 2011 budget. See "Fiscal Year 2011 Proposed Budget."

The CAFR for the fiscal year ended June 30, 2009 was issued on January 22, 2010. The CAFR, beginning with the one issued for the fiscal year ended June 30, 2002, incorporates several new accounting and reporting standards that affect the comparability of financial information for that fiscal year and subsequent fiscal years to GAAP basis financial information reported for fiscal years prior to the adoption of the new standards. Also beginning with the fiscal year ended June 30, 2002, the CAFR provides a new presentation of government-wide financial statements that are intended to provide an all-encompassing view of a government's financial condition and activities. See the discussion in "COMMONWEALTH FINANCIAL STRUCTURE AND PROCEDURES – New Governmental Accounting and Reporting Standards" and below in "Government-Wide Financial Data (GAAP Basis)."

The economic recession 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.

The recession continues to adversely affect the Commonwealth's revenue receipts during fiscal year 2010. General Fund revenue estimates incorporated in the enacted budget for fiscal year 2010 included a projected growth in receipts of 12.9 percent, with most of these additional receipts coming from the transfer of balances from other existing funds. Total tax revenues were projected to grow just 2.9 percent during fiscal year 2010. Through March 2010, General Fund revenues are 3.3 percent below the certified revenue estimate for fiscal year 2010. On a year-over-year basis, General Fund revenues have grown 6.4 percent, primarily based upon the timing of the transfer of balances from other funds. Further, through March 2010, corporate tax, sales tax and personal income tax receipts had all declined on a year-over year basis from fiscal year 2009. In February 2010, the Governor's proposed budget for fiscal year 2011 included a revision to the fiscal year 2010 revenue estimate for General Fund revenues to reflect the adverse effects of the national economic recession. The proposed fiscal year 2011 budget presented in February estimated that fiscal year

2010 Commonwealth revenues may be $525 million less than the official estimate used during the enactment of the fiscal year 2010 budget. Actual revenues through April 2010 are $1,109.6 million or 4.6 percent below the estimate enacted as part of the fiscal year 2010 budget. Actions taken to date to reduce Commonwealth spending in light of then-assumed $525 million projected revenue shortfall during fiscal year 2010 include additional budget cuts totaling nearly $135 million, the use of prior year lapses and a drawdown of the projected ending balance. Based on higher than expected revenue shortfalls through April, which now stand at $1,109.6 million, the Commonwealth is proposing to utilize $275 million in funds from its Medicare Part D Clawback credit with the federal government, $200 million in balances in legislative accounts and $150 million in lower reserves for tax refunds. Therefore, based on the revised projections of fiscal year 2010 revenues, as incorporated in the Governor's proposed fiscal year 2011 budget released on February 9, 2010, and assuming the aforementioned budget balancing actions, the General Fund is currently projected to have an ending balance of approximately $37 million for fiscal year 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, 2009 ("fiscal year 2009"), which was filed with EMMA on January 28, 2010. 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 2009 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, 555 Walnut Street, 9th Floor, Harrisburg, Pennsylvania 17101 (Telephone (717) 425-6736), 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 2009 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, on the next page, presents condensed financial statement information derived from the Commonwealth's government-wide June 30, 2009 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, 2009
(In Billions)

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments	$ 10.4	$ 4.6	$ 15.0
Capital assets (net)	26.7	0.1	26.8
All other assets	7.1	1.4	8.5
Total Assets	$ 44.2	$ 6.1	$ 50.3
Liabilities:			
Accounts payable	$ 6.0	$ 0.9	$ 6.9
All other current liabilities	3.7	2.1	5.8
Total Current Liabilities	9.7	3.0	12.7
Bonds payable	8.5	-	8.5
All other long-term liabilities	2.8	2.5	5.3
Total long-term liabilities	11.3	2.5	13.8
Total liabilities	$ 21.0	$ 5.5	$ 26.5
Net assets:			
Invested in capital assets, net of related debt	$ 22.8	$ 0.1	$ 22.9
Restricted	4.5	0.9	5.4
Unrestricted	(4.1)	(0.4)	(4.5)
Total Net Assets	$ 23.2	$ 0.6	$ 23.8

Source: Comprehensive Annual Financial Report, fiscal year ended June 30, 2009.

During the fiscal year ended June 30, 2009, the overall financial position (net assets) of the Commonwealth, including both governmental and business-type activities, decreased by $4.7 billion, or nearly 16.5 percent of total beginning net assets of $28.5 billion. For governmental activities, the net decrease in net assets was $2.1 billion or 8.3 percent of beginning net assets of $25.3 billion. Total investments, excluding the State Employees' Retirement Fund and all other fiduciary funds, totaled over $14.3 billion and total cash balances were over $633 million at June 30, 2009. These amounts represent significant decreases from prior year fiscal year investment ($19.3 billion) and cash ($1.8 billion) balances. Such decreases were primarily caused by much lower General Fund and other tax revenues, a sharp decrease in Unemployment Compensation net assets, and lower investment income during the current fiscal year. The current fiscal year decrease in governmental activities net assets ($2.1 billion) represents a $3.1 billion change from the prior fiscal year's (restated) increase of $1.0 billion. These current fiscal year decreases represent significant year-over-year deteriorations in the Commonwealth's overall financial position when compared to the prior fiscal year ended June 30, 2008. The $2.6 billion decrease in total net assets for business-type activities follows a $400 million decrease during the prior fiscal year. The $2.2 billion year over year decrease is primarily attributable to a net assets decrease of over $1.9 billion in the unemployment compensation program, where the prior fiscal year net assets decrease was less than $100 million. During the current fiscal year, unemployment compensation revenues increased by nearly $2.1 billion while expenses increased by $4.0 billion; in the prior fiscal year revenues decreased by $106 million and expenses increased by $213 million. Also, during the fiscal year ended June 30, 2009, combined decreases in net assets of the State Lottery Fund ($280 million decrease in the current fiscal year compared to $213 million decrease in the prior fiscal year) and the Tuition Payment Fund ($150 million decrease in the current fiscal year compared to $132 million decrease in the prior fiscal 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, 2009 were $17,295.4 million. Liabilities for the same date totaled $11,205.9 million, leaving a fund balance of $6,089.5 million, a decrease of $2,740.5 million from the fund balance at June 30, 2008. On a fund specific basis, the fund balance for the General Fund decreased by $2,458.9 million, the fund balance for the Motor License Fund decreased by $56.8 million, the fund balance for the Tobacco Settlement Fund decreased by $130.4 million and the fund balance for aggregated non-major funds decreased by $94.4 million. See "General Fund – Fiscal Year 2009 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, 2009
(In Thousands)

Fund Balances - Governmental Funds		
General Fund	$	515.2
Motor License Fund		1,509.7
Tobacco Settlement Fund		1,027.4
Nonmajor Funds		3,037.2
Total Fund Balance - Governmental Funds	$	6,089.5
Plus: Capital Assets, including infrastructure		41,463.3
Less: Accumulated depreciation		(14,758.3)
Plus: Deferred revenue		2,340.9
Plus: Additional accrued receivables		314.2
Plus: Net assets of internal service funds		75.1
Plus: Inventories		95.3
Less: Long-term liabilities		(12,380.1)
Total Net Assets - Governmental Activities	$	23,239.9

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 2005 through fiscal year 2009, 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 0.8 percent with a portion of the average annual growth rate adversely impacted by a significant decline in tax revenue and revenues from other sources in fiscal year 2009. 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 2005 through 2009 rose at an average annual rate of 2.2 percent. Expenditures for the protection of persons and property during this period increased at an average annual rate of 6.6 percent; public education expenditures during this period increased at an average annual rate of 4.0 percent; health and human services expenditures increased at an average annual rate of 2.4 percent; and capital outlays increased at an average annual rate of 6.1 percent. Commonwealth expenditures for direction and support services (state employees and government administration) decreased at an average annual rate of 21.4 percent during the fiscal years 2005 through 2009. The fund balance at June 30, 2009 totaled $515.2 million, a decrease of $2,458.9 million from the balance at June 30, 2008. The fiscal year 2009 year-end unreserved-undesignated portion of the fund balance was negative $2,541.1 million, $2,531.5 million below the amount recorded for fiscal year 2008 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 2005 through 2009.

[INTENTIONALLY LEFT BLANK]

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

	Fiscal Year Ended June 30				
	2005	**2006**	**2007**	**2008**	**2009**
Fund Balance — Beginning of Period	$ 3,006,514	$ 2,869,109	$ 2,969,549	$ 3,370,866	$ 2,974,101
Revenues:					
Taxes	$ 22,841,136	$ 24,783,040	$ 25,992,166	$ 26,390,658	$ 24,117,729
Licenses and fees	300,450	294,728	366,519	372,854	385,330
Intergovernmental	15,102,454	14,662,940	15,160,953	15,419,122	17,897,156
Other revenues	4,053,837	2,970,801	1,782,509	1,748,866	1,213,383
Other Financing Sources:					
Operating transfers in	62,912	88,930	200,564	119,514	189,329
Other additions	640	568	1,582	529	3,638
TOTAL REVENUES AND OTHER SOURCES	$ 42,361,429	$ 42,801,007	$ 43,504,293	$ 44,051,543	$ 43,806,565
Expenditures:					
Direction and supportive services	$ 2,047,999	$ 2,062,113	$ 892,397	$ 1,079,972	$ 781,581
Protection of persons and property	3,013,875	3,278,962	3,335,713	3,546,365	3,897,371
Health and human services	23,361,454	23,135,166	23,536,324	24,317,283	25,687,548
Public education	11,382,118	11,666,929	12,372,125	12,994,517	13,340,204
Recreation and cultural enrichment	292,981	297,854	353,018	331,454	341,283
Economic development	987,325	956,411	1,204,253	1,122,067	1,115,359
Transportation	449,228	443,270	434,737	24,853	48,969
Capital outlay	27,305	27,758	25,275	19,496	34,551
Debt service	-	5,064	3,230	34	144
Other Uses:					
Operating transfers out	936,549	827,040	945,904	1,012,267	1,018,478
TOTAL EXPENDITURES AND OTHER USES	$ 42,498,834	$ 42,700,567	$ 43,102,976	$ 44,448,308	$ 46,265,488
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES	(137,405)	100,440	401,317	(396,765)	(2,458,923)
Fund Balance — End of Period	$ 2,869,109	$ 2,969,549	$ 3,370,866	$ 2,974,101	$ 515,178
Components of Fund Balance					
Reserved for encumbrances	$ 617,861	$ 709,115	$ 570,027	$ 568,678	$ 785,864
Reserved for advances and other	809,911	751,062	1,508,214	2,016,633	2,270,413
Unreserved — designated	514,174	719,414	923,966	379,169	-
Unreserved — undesignated	927,163	789,958	368,659	9,621	(2,541,099)
TOTAL FUND BALANCE	$ 2,869,109	$ 2,969,549	$ 3,370,866	$ 2,974,101	$ 515,178

Source: Compiled from Office of the Budget, Comprehensive Annual Financial Report for fiscal years ended June 30, 2005 through 2009.

[INTENTIONALLY LEFT BLANK]

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 2009	Estimate Fiscal Year 2010	Proposed Fiscal Year 2011
Sources:			
Cash revenues	$ 25,529.8	$ 27,544.7	$ 27,515.1
Tax refunds	(1,225.0)	(1,250.0)	(1,275.0)
Additional resources available	0.0	0.0	0.0
Public Health and Human Services Assessments[a]	445.8	642.9	590.9
TOTAL SOURCES	$ 24,750.6	$ 26,937.6	$ 26,831.0
Uses:			
General fund appropriations	$ 28,323.8	$ 27,874.9	$ 29,029.5
Expenditures from additional resources	0.0	0.0	0.0
Lapses and other reductions[b]	(634.2)	(3,662.2)	(2,756.1)
Public Health and Human Services Assessments[a]	445.8	642.9	590.9
TOTAL USES	$ 28,135.4	$ 24,855.6	$ 26,864.3
OPERATING BALANCE	$ (3,384.8)	$ 2,082.0	$ -33.3
BEGINNING UNAPPROPRIATED BALANCE	585.3	(2,799.5)	37.5
ADJUSTMENT TO UNAPPROPRIATED BALANCE	…...	…...	…...
TRANSFER (TO)/FROM BUDGET STABILIZATION RESERVE FUND	0.0	755.0	0.0
ENDING UNAPPROPRIATED BALANCE	$ (2,799.5)	$ 37.5	$ 4.2

Totals may not add due to rounding.

(a) Only includes funds replacing Commonwealth funds. Fiscal year 2009 includes $181.7 million from a nursing home tax used to augment appropriated funds for long-term care. For fiscal year 2010, this number is $237.8 million and for fiscal year 2011 it is $240.5 million. Additionally, fiscal year 2009 included $203.5 million, fiscal year 2010 included $405.1 million and fiscal year 2011 includes an estimated $350.4 million from a tax imposed on managed care organizations.

(b) Includes prior year appropriation lapses and federal funds from the American Recovery and Reinvestment Act.

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

GAAP Basis. At June 30, 2009, the General Fund reported a fund balance of $515.2 million, a decrease of $2,458.9 million from the reported $2,974.1 million fund balance at June 30, 2008. On a net basis, total assets decreased by $3,172.0 million to $9,317.0 million. Liabilities decreased by $713 million to $8,802 million largely because of decrease in securities lending obligations ($1,306 million). The change in fund balance for the General Fund of -$2,459 million for fiscal year 2009 compares with a change in the fund balance of -$397 million for fiscal year 2008.

General Fund tax revenues decreased overall by over $2.2 billion (8.6 percent) during the fiscal year ended June 30, 2009. Decreases in the three largest tax types (amounting to nearly $2 billion) were directly attributable to declines in economic activity during the current fiscal year. Similarly, real estate tax revenues decreased ($129 million) due to weaknesses in the housing market.

Intergovernmental revenues increased by $2,478 million, net, resulting primarily from Federal participation in significantly higher expenditures for Medical Assistance and other types of health and human services expenditures. Nearly $1 billion of the higher Federal revenues were from the Federal American Recovery and Reinvestment Act of 2009. Combined licenses/fees/investment and other revenues decreased by $331 million primarily because of a year-over-year decrease in investment income of nearly $260 million. Charges for sales and services revenues decreased by $192 million as the Public Welfare's revenues decreased by nearly $318 million, primarily due to the end of the Intergovernmental Transfers program ($284 million decrease), the current fiscal year revenue accrual being lower than the prior fiscal year ($135 million decrease), with offsetting increases in hospital/nursing home and other assessments

($91 million) during the current fiscal year. Also, a $100 million decrease in prior fiscal year revenues related to Act 67 Job Creation tax credits did not occur in the current fiscal year, thus increasing year-over-year revenues by $100 million. Finally, $30 million of posted revenues during the prior fiscal year did not recur during the current fiscal year.

Total General Fund expenditures increased by 4.17 percent during the fiscal year ended June 30, 2009, by $1.8 billion. Reported expenditures for health and human services expenditures increased by $1,371 million, caused by a higher aggregate need for medical assistance services, and income or cash grant assistance. Public education expenditures increased by $344 million due primarily to increases in basic education ($274 million), charter school reimbursements ($65 million), special education ($16 million), pupil transportation ($12 million), non-public transportation ($12 million), school employee social security (employer share)($22 million); also, a decrease in school employee retirement (employer share)($90 million). Protection of person and property expenditures increased by $350 million primarily because of an intra-fund expenditure elimination during the prior fiscal year that was not necessary during the current fiscal year ($177 million); higher expenditures for the Children's Health Insurance Program ($52 million), caused by both higher enrollment and higher utilization; higher expenditures for Corrections and State Police agencies ($63 million) for personnel costs, legal settlements and other legal costs; and higher Military and Veterans Affairs agency facilities expansion expenditures (over $30 million). Direction and supportive services expenditures decreased by $298 million, net, primarily because of the aforementioned $177 million prior fiscal year intra-fund expenditure elimination that was not necessary during the current fiscal year and because of decreases in posted expenditures for payments to an external healthcare benefits plan administrator (over $123 million).

Reported Transfers to the General Fund increased by $69 million, net, primarily because of 1) a $45.0 million increase from the State Stores Fund, 2) a new $15.0 million transfer from the Recycling Fund, 3) a new $15.0 million transfer from the Banking Department Fund, 4) a prior fiscal year $9.4 million transfer from the Environmental Stewardship Fund that did not occur in the current fiscal year, 5) a $5.0 million transfer from the Manufacturing Fund which did not occur in the prior fiscal year, 6) a prior fiscal year $3.0 million transfer from the Capital Facilities Fund that did not occur in the current fiscal year, and 7) a new $2.0 million transfer from the Hazardous Sites Cleanup Fund.

Reported Transfers from the General Fund increased by $6 million, net, primarily because of 1) a $24.4 million increase to debt service funds, 2) prior fiscal year transfers of $13.9 million to various Commonwealth Funds that did not occur during the current fiscal year, 3) a $12.8 million decrease in transfers to the Hazardous Sites Cleanup Fund, 4) a $5.5 million increase in transfers to the Vocational Rehabilitation Fund, and 5) a new $4.5 million transfer to the Keystone Help Program Fund.

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 then-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 $27,937.6 million in revenues, net of tax refunds and including additional resources and assessments is estimated for fiscal year 2010. The $2,082.0 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 $3,662.2 million in available federal fiscal relief funds and lapses to offset state appropriations.

Total fiscal year 2010 revenues of the Commonwealth, prior to reserves for refunds, were expected to be $525 million or 1.8 percent below the certified official estimate for fiscal year 2010, as proposed in the Governors fiscal year 2011 budget in February. Fiscal year 2010 receipts from corporate tax receipts are now estimated to decline slightly below the official estimate for 2010, by 0.3 percent and corporate receipts are now expected to grow 4.9 percent on a year-over-year basis. Personal income tax receipts in fiscal year 2010 are now expected to be 2.6 percent lower than the official estimate and personal income tax collections are expected to decline 1.9 percent from the prior year on a year-over-year basis. Sales and use tax receipts are now projected to be 3.6 percent lower than the original estimate for fiscal year 2010 and a minor 0.6 percent decline, is forecast on a year-over-year basis. However, the dramatic and continued adverse effects of the national economic recession continue to adversely impact Commonwealth revenues. Through April 2010, General Fund revenues are 4.6 percent below estimate or $1,109.6 million below the certified official estimate. Corporation tax receipts are below estimate through April at -9.8 percent, while receipts from the Sales tax and the Personal Income tax are 4.9 percent and 3.1 percent below the official estimate.

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 January 2010 and a then-projected $525 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 $135 million will be implemented during fiscal year 2010 in agencies under the Governor's jurisdiction. An additional $60 million in prior year appropriations or "lapses" will be available to address a portion of the projected revenue shortfall. Finally, $330 million would be drawn from the initial projected $368.7 million year-end unappropriated surplus. As result, the projected year-end unappropriated surplus was estimate to be $37.5 million. However, based on higher than expected fiscal year 2010 revenue shortfalls through April, which now stand at $1,109.6 million, the Commonwealth is proposing to utilize $275 million in funds from its Medicare Part D Clawback credit with the federal government, $200 million in existing balances in legislative accounts and $150 million in lower reserves for tax refunds. Therefore, based on the revised projections of fiscal year 2010 revenues, as incorporated in the Governor's proposed fiscal year 2011 budget released on February 9, 2010, and assuming the aforementioned budget balancing actions, the General Fund is currently projected to have an ending balance of approximately $37 million for fiscal year 2010.

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

Fiscal Year 2011 Proposed Budget

A proposed fiscal year 2011 budget was submitted by the Governor to the General Assembly on February 9, 2010. The proposed budget recommends net appropriations totaling $26,864.3 million of Commonwealth funds against estimated revenues, net of tax refunds and proposed tax changes, of $26,831.0 million. As result, the proposed fiscal year 2011 budget anticipates an operating shortfall of $33.3 million which will be remedied by a partial draw down of the anticipated fiscal year 2010 year-end unappropriated balance of $37.5 million. As result, the anticipated fiscal year-end 2011 unappropriated balance is expected to be $4.2 million. The fiscal year 2011 budget also assumes $1,908 million in federal fiscal relief to the Commonwealth which will be used to offset state appropriations as well as $848 million in additional federal fiscal relief from a proposed federal extension to the Federal Medical Assistance Percentage (FMAP). The fiscal year 2011 proposed budget represents a 4.9 percent ($1,231.6 million) increase in appropriations over the fiscal year 2009 budget after accounting for anticipated federal fiscal relief of over $2,698.1 million in fiscal year 2010 and $2,756.1 million in fiscal year 2011.

The fiscal year 2011 proposed budget reduces spending 1.0 percent in all areas other than education, public welfare, aging and long term living, corrections, probation and parole and debt service. Administrative spending in the fiscal year 2011 proposed budget is 4 percent lower than it was in fiscal year 2003. Education funding is expanded in the proposed fiscal year 2011 budget as an additional $354.8 million is recommended for the Basic Education appropriation, a 7.3 percent increase. The proposed budget also includes a $388 million increase for the Department of Public Welfare, primarily for an increase in medical assistance spending. The fiscal year 2011 proposed budget builds on the estimated $825 million in savings and cost controls generated within the Department of Public Welfare in fiscal year 2010. An estimated $112 million in new savings will be generated by the Department through pharmaceutical cost controls during fiscal year 2011.

In February 2010, the Pennsylvania General Assembly began appropriations committee hearings for the fiscal year 2011 budget. On March 23, 2010, the Pennsylvania House of Representatives passed House Bill 2279 which, if enacted by the Senate and signed by the governor, would implement the fiscal year 2011 General Fund Budget. The Pennsylvania Senate will now begin deliberations on House Bill 2279.

The General Assembly may change, eliminate or add amounts and items to the proposed budget submitted by the Governor, and there can be no assurance that the budget, as proposed by the Governor, will be enacted into law by June 30. In the event that the General Assembly fails to pass or the Governor fails to sign an appropriation 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 periods of an 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. Failure, however, of the Governor and the General Assembly to reach agreement on the budget could have adverse effects on the Commonwealth, including, among others, the collection of revenue and completion of the annual audit. See Appendix C for additional information on the budget.

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, 2009, was $1,509.7 million, a $56.8 million (3.6 percent) decrease from the June 30, 2008 fund balance. Over the five fiscal years of 2005 through 2009, revenues and other sources have averaged an annual 4.9 percent increase. Expenditures and other uses during the period from fiscal years 2005 through 2009 have averaged a 6.6 percent annual increase.

Overall, total revenues increased by $29 million during the fiscal year ended June 30, 2009; this represents a 0.6 percent increase over the prior fiscal year. The most significant factor was a $99 million increase in intergovernmental revenues for federal aid for bridge projects as a result of increased bridge expenditures. In addition, Act 44 of 2007 mandated an additional $50 million in intergovernmental revenues from the Pennsylvania Turnpike Commission. A decrease in tax revenues of $48 million was primarily caused by decreased gasoline and diesel fuel consumption during the current fiscal year. Most of the decrease in other revenues was caused by a $42 million decrease in investment income due to lower securities valuation and other factors as of June 30, 2009.

Overall expenditures increased $332 million over the prior fiscal year. Capital outlays increased $425 million increase while transportation expenditures decreased $93 million from the prior fiscal year. Current fiscal year bridge projects appropriation expenditures increased by $229 million as a result of additional funding established by Act 54 of 2008 (authorizing the issuance of debt for bridge programs) and the inclusion of additional bridge projects in Act 96 of 2008. Also, current fiscal year expanded highway and bridge appropriation expenditures increased by $120 million as a result of Act 44 of 2007 funding, which began during the prior fiscal year. Finally, current fiscal year bridge preservation appropriation expenditures decreased by $21 million as a result of the appropriation being combined into the expanded highway and bridge appropriation.

The $74 million decrease in cash and investments ($308 decrease), net of securities lending obligations ($234 decrease), is a result of total expenditures exceeding total revenues during the current fiscal year. Other assets increased by $48 million primarily because federal receivables for the bridge projects appropriation were $12 million higher as a result of increased bridge expenditures. Similarly, bridge projects included in Act 96 of 2008 accounted for $14 million in higher receivables from the Capital Facilities Fund. American Recovery and Reinvestment Act activity accounted for an additional $3.3 million in federal receivables. Accounts payable increased by $49 million, primarily as a result of overall increases in expenditures. Net transfers to other funds declined by $34 million due primarily to one-time activity occurring in the prior fiscal year: a $41.4 million transfer to the PA Infrastructure Bank Fund providing additional funding for the Municipal Loan Program and transfers from the General Fund ($7.9 million) and the Public Transportation Trust Fund ($3.3 million).

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 2005 through 2009.

Table 9
Results of Operations–Motor License Fund
GAAP Basis–Unaudited
(In Thousands)

	Fiscal Year Ended June 30				
	2005	**2006**	**2007**	**2008**	**2009**
Fund Balance — Beginning of Period	$ 1,079,617	$ 1,276,525	$ 1,549,078	$ 1,418,781	$ 1,566,520
Restatements	-	-	-	-	30,059
Fund Balance — Beginning of Period, as Restated	$ 1,079,617	$ 1,276,525	$ 1,549,078	$ 1,418,781	$ 1,596,579
Revenues:					
Taxes	$ 1,844,670	$ 2,033,227	$ 2,072,442	$ 2,024,045	$ 1,975,678
Licenses and fees	889,984	899,690	878,679	877,141	874,711
Intergovernmental	1,213,487	1,413,434	1,448,007	1,913,422	2,062,260
Other revenues	171,839	185,611	250,031	114,549	75,421
Other Financing Sources:					
Operating transfers in	-	-	-	11,204	-
Other additions	562	-	154	-	-
TOTAL REVENUES AND OTHER SOURCES	$ 4,120,542	$ 4,531,962	$ 4,649,313	$ 4,940,361	$ 4,988,070
Expenditures:					
Direction and supportive services	$ 50,338	$ 51,738	$ 66,572	$ 66,993	$ 71,167
Protection of persons and property	509,999	553,679	667,318	647,014	638,844
Public education	1,058	1,024	991	867	806
Recreation and cultural enrichment	3,437	-	408	1,337	1,390
Transportation	1,826,539	1,679,517	2,326,944	2,198,115	2,105,489
Capital outlay	1,472,434	1,924,821	1,672,026	1,793,459	2,217,691
Other Uses:					
Operating transfers out	59,829	48,630	45,351	84,837	39,530
TOTAL EXPENDITURES AND OTHER USES	$ 3,923,634	$ 4,259,409	$ 4,779,610	$ 4,792,622	$ 5,074,917
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES	196,908	272,553	(130,297)	147,739	(86,847)
Fund Balance — End of Period	$ 1,276,525	$ 1,549,078	$ 1,418,781	$ 1,566,520	$ 1,509,732
Components of Fund Balance					
Reserved for encumbrances	$ 601,809	$ 464,511	$ 596,304	$ 670,338	$ 652,352
Reserved for advances and other	110,000	1,635	2,014	5,242	10,225
Unreserved - designated - highways	218,885	203,118	235,730	689,288	700,018
Unreserved - undesignated	345,831	879,814	584,733	201,652	147,137
TOTAL FUND BALANCE	$ 1,276,525	$ 1,549,078	$ 1,418,781	$ 1,566,520	$ 1,509,732

Source: Compiled from Office of the Budget, Comprehensive Annual Financial Report for fiscal years ended June 30, 2005 through 2009.

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

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 have submitted supplemental material to the federal government; however, the Commonwealth has again been notified that its application for tolling of Interstate 80 has been rejected, and the Commonwealth is currently evaluating options available to it. In addition, Governor Rendell has announced that he intends to call a special session of the General Assembly to address transportation funding in the Commonwealth. 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 to $450 million annually once the Commission's conversion period under the lease expires.

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 re-estimates revenues of $2,600.9 million, an increase of 1.7 percent over fiscal year 2009 receipts. The enacted fiscal year 2010 Motor License Fund budget appropriates and authorizes, less estimated lapses, $2,644.1 million, a decrease of 3.0 percent from fiscal year 2009 expenditures. The enacted fiscal year 2010 budget anticipates adding $47.9 million to the fiscal year 2009 unappropriated balance. The anticipated unappropriated fiscal 2010 year-end balance is estimated to be $105.6 million, an increase of 83 percent from the fiscal year 2009 level.

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.

Fiscal Year 2011 Proposed Budget

A budget proposing $2,708.9 million of appropriations from Commonwealth Motor License Fund revenues for fiscal year 2011 has been submitted to the General Assembly. The requested amount of appropriations represents an increase of 2.5 percent from the appropriated level, less estimated lapses, for fiscal year 2010 and projects the draw down of a portion of the fiscal year 2010 beginning balance. The budget proposed for fiscal year 2011 includes an anticipated 0.7 percent increase in revenues to the Motor License Fund. Total revenues of the Motor License Fund are estimated to be $2,619.1 million in fiscal year 2011. The proposed budget projects a partial draw down of approximately $105.6 million from the estimated fiscal year beginning balance. The projected 2011 year-end unappropriated balance is estimated to be $15.6 million.

The General Assembly is considering the Governor's budget proposal through hearings and debate on various bills, including the General Appropriation Bill, required to enact the proposed budget. The General Assembly may change, eliminate or add amounts and items to the proposed budget submitted by the Governor and there can be no assurance that the budget, as proposed by the Governor, will be enacted into law by June 30. See Appendix C for additional information on the budget.

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, 2009, were negative $144.5 million, a $280.3 million decrease from the June 30, 2008 fund balance, which represents a 206 percent decrease. Over the five fiscal years of 2005 through 2009, revenues have averaged an annual 4.3 percent increase while expenditures and other uses during the period from fiscal years 2005 through 2009 have averaged a 7.8 percent annual increase.

As of June 30, 2009 the year over year decrease in cash and investments of $372 million was the result of lower securities lending program balances ($134 million), combined with lower year over year investment valuations and the result of total expenses and transfers exceeding total revenues and transfers by $280 million. Also, periodically, investments were sold to meet the current cash flow needs of the State Lottery Fund, and the transfers to other funds. Other expenses increased by $12 million as a result of more individuals applying for and qualifying for federal assistance. The current fiscal year transfers from other funds decreased by $51 million. Act 1 of Special Session 1 of 2006 authorized $48.5 million during the current fiscal year to finance the expansion of the Property Tax Rent Rebate (PTRR) program, which was significantly expanded by Act 1 of Special Session 1 of 2006. The current fiscal year transfers to other funds decreased by $21 million. This was primarily due to a $23.90 million decrease in State Lottery Fund resources needed to support the PACE Program (pharmaceutical benefits for the elderly) Fund due to decreases in both 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 State Lottery Fund to finance expenditures associated with the Shared Ride and Free Transit programs for older Pennsylvanians. During the current fiscal year $82.1 million was transferred to PTTF, which was an increase of $2.1 million. The funding was ultimately disbursed as grants to public transit agencies. 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 2005 through 2009.

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

[INTENTIONALLY LEFT BLANK]

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

	Fiscal Year Ended June 30				
	2005	**2006**	**2007**	**2008**	**2009**
Net Assets -					
Beginning of Period	$ 158,426	$ 291,416	$ 357,696	$ 348,278	$ 135,824
Revenues:					
Lottery revenues	2,645,713	3,046,854	3,076,572	3,100,596	3,087,962
Investment income	17,282	25,360	39,957	1,461	(17,677)
Other revenues	68,412	78,331	78,576	101,316	110,836
Other Financing Sources:					
Operating transfers in	-	-	100,000	100,186	48,500
TOTAL REVENUES AND OTHER SOURCES	$ 2,731,407	$ 3,150,545	$ 3,295,105	$ 3,303,559	$ 3,229,621
Expenditures:					
Operating expenses	$ 2,298,417	$ 2,704,265	$ 3,100,518	$ 3,157,593	$ 3,173,322
Other expenses	-	-	5	-	-
Other Uses:					
Operating transfers out	300,000	380,000	204,000	358,420	336,660
TOTAL EXPENDITURES AND OTHER USES	$ 2,598,417	$ 3,084,265	$ 3,304,523	$ 3,516,013	$ 3,509,982
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES	132,990	66,280	(9,418)	(212,454)	(280,361)
Net Assets - End of Period	$ 291,416	$ 357,696	$ 348,278	$ 135,824	$ (144,537)
Components of Net Assets					
Invested in capital assets, net of debt	$ 87	$ 31,771	$ 7,442	$ 11,473	$ 12,264
Restricted for elderly programs	291,329	325,925	340,836	124,351	-
Deficit	-	-	-	-	(156,801)
TOTAL NET ASSETS	$ 291,416	$ 357,696	$ 348,278	$ 135,824	$ (144,537)

Source: Compiled from Office of the Budget, Comprehensive Annual Financial Report for fiscal years ended June 30, 2005 through 2009.

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 re-estimated to be $1,552.3 million in fiscal year 2010, an increase of $163.4 million from fiscal year 2009 actual receipts. 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, less estimated lapses, totaling $1,577.7 million are expected, which represents a decrease of $171.1 million or 9.8 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 $127.7 million (including a re-instatement of at least $100 million of reserves), an increase of 12.9 percent.

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.

Fiscal Year 2011 Proposed Budget

The Governor's proposed fiscal year 2011 budget anticipates a 1.9 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 $1,582.2 million in fiscal year 2011, an increase of $29.9 million from revised fiscal year 2010 estimates. Appropriations totaling $1,593.6 million are recommended, which represents an increase of $15.9 million or 1.0 percent from fiscal year 2010. The proposed fiscal year-end balance is projected to total $116.4 million, a decrease of 8.9 percent.

Trend projections for fiscal years beyond fiscal year 2011 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 General Assembly is considering the Governor's budget proposal through hearings and debate on various bills, including the General Appropriation Bill, required to enact the proposed budget. The General Assembly may change, eliminate or add amounts and items to the proposed budget submitted by the Governor and there can be no assurance that the budget, as proposed by the Governor, will be enacted into law by June 30. See Appendix C for additional information on the budget.

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 estimated for the fiscal year 2010 budget.

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 Estimate
(In Millions)

	Fiscal Year Ended June 30						
	2004	2005	2006	2007	2008	2009	Estimate 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	$ 8,090.5
Personal income	7,733.8	8,746.8	9,524.1	10,261.6	10,907.7	10,198.7	10,005.4
Corporate (b)	2,661.7	2,947.3	3,382.8	3,492.4	3,437.6	2,767.6	2,815.1
Public utility (c)	1,062.7	1,167.1	1,191.2	1,340.8	1,393.6	1,418.7	1,519.0
Inheritance	747.6	716.1	745.2	756.6	828.6	772.2	779.2
Financial and insurance (d)	608.3	619.6	595.0	626.1	610.1	630.0	723.1
Cigarette	856.4	784.4	792.1	778.6	784.1	754.2	979.8
Realty transfer	400.6	472.5	552.5	571.0	429.5	294.5	295.2
Alcoholic beverages (e)	221.4	237.4	249.2	264.7	277.4	292.5	310.3
Other	25.0	21.3	3.7	1.4	128.0	30.8	23.5
TOTAL TAX REVENUES	$ 22,046.0	$ 23,712.5	$ 25,370.0	$ 26,684.0	$ 27,293.2	$ 25,294.7	$ 25,541.1
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	2,633.3
Fines, penalties and interest	35.1	32.0	35.5	41.7	48.6	20.1	20.3
TOTAL NON-TAX REVENUES	$ 782.0	$ 596.0	$ 484.1	$ 765.3	$ 634.9	$ 235.3	$ 2,758.6
TOTAL GENERAL FUND	$ 22,828.0	$ 24,308.5	$ 25,854.1	$ 27,449.3	$ 27,928.1	$ 25,530.0	$ 28,299.7
Motor License Fund							
Tax Revenues:							
Liquid fuels	$ 587.1	$ 588.4	$ 581.8	$ 589.2	$ 591.7	$ 520.5	$ 556.4
Fuels use	155.0	157.4	162.4	162.8	157.1	149.6	145.4
Oil company franchise	342.4	381.3	445.2	462.8	447.7	452.8	437.8
Motorbus & alt fuels	28.6	32.7	36.6	40.6	40.0	40.3	39.7
TOTAL TAX REVENUES	$ 1,113.1	$ 1,159.8	$ 1,226.0	$ 1,255.4	$ 1,236.5	$ 1,163.2	$ 1,179.3
Non-Tax Revenues:							
Licenses and fees	$ 843.2	$ 876.9	$ 877.8	$ 870.0	$ 872.1	$ 883.9	$ 843.5
Other and miscellaneous	129.4	120.1	162.0	165.4	559.4	509.7	578.2
TOTAL NON-TAX REVENUES	$ 972.6	$ 997.0	$ 1,039.8	$ 1,035.4	$ 1,431.5	$ 1,393.6	$ 1,421.7
TOTAL MOTOR LICENSE FUND	$ 2,085.7	$ 2,156.8	$ 2,265.8	$ 2,290.8	$ 2,668.0	$ 2,556.8	$ 2,601.0
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	$ 1,373.1
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	$ 1,552.3
TOTAL STATE LOTTERY FUND	$ 1,170.5	$ 1,211.9	$ 1,459.6	$ 1,498.7	$ 1,439.8	$ 1,411.0	$ 1,552.3

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 re-estimated on February 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 2009 totaled $20.2 billion, while such federal receipts are budgeted at $26.1 billion in fiscal year 2010. Approximately $14 billion, or 69.5 percent of total federal revenue to the Commonwealth for fiscal year 2009, 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 2010, $15.2 billion, or 58.3 percent of federal revenues, is attributable to these types of programs. For fiscal year 2011, federal funds in the General Fund, Motor License Fund Tobacco and State Lottery Fund are estimated to be $25.8 billion.

Federal receipts have been influenced by the enactment of the American Recovery and Reinvestment Act (ARRA). The proposed fiscal year 2011 budget includes estimated receipts of $1.2 billion in fiscal year 2009, $2.7 billion in fiscal year 2010 and $2.8 billion for fiscal year 2011 in each of these fiscal years 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 over $11 billion in education funding, a decrease of 5.6 percent over fiscal year 2009. The proposed budget for fiscal year 2011 includes over $11.5 billion in education funding.

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. The recommended budget for fiscal year 2011 includes $5.88 billion, a $354.8 million or 6.4 percent, increase to the Basic Education Subsidy over fiscal year 2010.

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 81.7 percent of all Commonwealth expenditures for education in fiscal year 2009. The enacted budget for fiscal year 2010 includes more than $9.1 billion for basic education programs. The recommended budget for fiscal year 2011 includes over $9.5 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 271 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 $2 billion for higher education. The recommended budget for fiscal year 2011 includes nearly $2 billion for higher education. This includes a combination of state and federal stimulus funds.

Table 14
Full-Time Equivalent Enrollment at State-Supported Institutions of Higher Education
School Years 2006-2010
(In Thousands)

	School Year Ended June				
	2006	**2007**	**2008**	**2009**	**2010**
State System of Higher Education.	100	103	104	106	108
State-Related Universities	140	145	147	153	153
Community Colleges	88	91	92	99	104
State-Aided Institutions	44	48	49	49	50
Total	372	387	392	407	415

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 $26.6 billion and are projected to be $27.1 billion for fiscal year 2010. For fiscal year 2011, $28.4 billion is proposed for these purposes. With regard to fiscal year 2010 expenditures, $9.1 billion was funded from the General Fund, while $9.5 billion is estimated to be provided from the General Fund for fiscal year 2011. The state fund amounts reflect the impact of an expected enhanced federal match of $1.5 billion in fiscal year 2010 and nearly $1.6 billion in fiscal year 2011. Federal funds are expected to increase by $909.5 million, and augmentations are expected to decrease by $11.7 million for fiscal year 2011. 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 proposed fiscal year 2011 budget includes $368.8 million of receipts from the Tobacco Settlement Fund that will be expended for health care and to offset General Fund expenditures. 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 $109.5 million. The Commonwealth has filed suit to recover the disputed payment funding withheld by tobacco companies. 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 and for fiscal year 2011, estimated receipts from the April 2010 payment are reduced by $28.4 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 $5.83 billion in fiscal year 2009, while $4.96 billion is budgeted from the General Fund for fiscal year 2010 and $5.33 billion is proposed for fiscal year 2011. A nursing home assessment fee provided a General Fund offset of $211.9 million in fiscal year 2009 and is budgeted to provide a $237.8 million offset in fiscal year 2010. In fiscal year 2011, the nursing home assessment offset is projected to be $240.5 million. 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 $405.1 million offset in fiscal year 2010. The managed care organization offset is projected to provide $350.4 million in General Fund offsets in fiscal year 2011. Approximately 33 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 2000 through 2010 by an average annual rate of 6 percent. Fiscal year 2010 expenditures from Commonwealth funds are projected to be $4.4 billion and the proposed budget for fiscal year 2011 provides $4.8 billion, an increase of 7.4 percent from the prior fiscal year. Income maintenance cash assistance payments to families in transition to independence were $1.4 billion for fiscal year 2010, of which $466.7 million is from the General Fund. The proposed budget for fiscal year 2011 includes a total of $1.3 billion, with $476.9 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 2010 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 2009, $850 million in additional funding was invested in the state's transportation system with $500 million going to highway and bridge projects and $350 million to mass transit projects. In fiscal year 2010, this increased to $900 million, with

$500 million going to highway and bridge projects and $400 million to mass transit programs. In fiscal year 2011, $922.5 million will be invested with $512.5 million for highway and bridge projects and $410 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 have submitted supplemental material to the federal government; however, the Commonwealth has again been notified that its application for tolling of Interstate 80 has been rejected, and the Commonwealth is currently evaluating options available to it. In addition, Governor Rendell has called a special session of the General Assembly to address transportation funding in the Commonwealth. 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 to $450 million annually once the Commission's conversion period under the lease expires. The possible reduction in lease payments would lead to a decrease of $300 million in annual expenditures for highway and bridge projects and a $150 million decrease in expenditures for mass transit from fiscal year 2010 levels.

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 2009 was $2.049 billion. This level decreased to $1.983 billion in fiscal year 2010 and is expected to decline to $1.892 billion in fiscal year 2011.

Support of highway and bridge expenditures by local governments through grants paid from Motor License Fund and restricted revenues was $361.7 million in fiscal year 2009. In fiscal year 2010 and in fiscal year 2011, grants to local governments will total $361.1 million and $352.7 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 2009, Commonwealth funding available for mass transit was $1.112 billion. In fiscal year 2010 and in fiscal year 2011, funding for mass transit will total $1.157 billion and $1.155 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 2009, $7.0 million was expended from the aviation restricted account for such purposes. A total of $9 million is budgeted for fiscal year 2010 and $8.5 million is available for fiscal year 2011.

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:

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.

[INTENTIONALLY LEFT BLANK]

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 December 31, 2009, PHFA had $5,100.0 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 12/31/2009	Final Maturity
Harristown Development Corporation	Office Space	$ 6,306	$ 40,775	May 1, 2016
Philadelphia Regional Port Authority	Port Facilities	4,601	37,000	Sept. 1, 2020
Sports & Exhibition Authority of Pittsburgh and Allegheny County	Public Auditorium	19,100	304,555	Nov. 1, 2039
CAFCO-PA Leasing I, LLC	Prison Facilities	3,769	19,300	Dec. 1, 2015
NORESCO, LLC	Equipment	2,158	NA[1]	Oct. 1 2026

(1) Principal amount outstanding at closing (March 25, 2010) was $15,580,000.

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 are included in Note K to the Fund Financial Statements for the fiscal year ended June 30, 2009.

In 2009, the Commonwealth executed an annually renewable lease purchase agreement with CAFCO-PA Leasing I, LLC, a Colorado limited liability company. The purpose of the lease purchase agreement is to assist the Commonwealth of Pennsylvania, acting through its Department of Correction, to acquire certain modular prison dormitory facilities. Certificates of participation in the amount of $19,300,000 were issued in December 2009. The certificates of participation are payable from lease payments made by the Commonwealth from an annual appropriation to its Department of Corrections.

In 2010, the Commonwealth executed an installment purchase agreement with Noresco, LLC, a Massachusetts limited liability company. The purpose of the installment purchase agreement is to assist the Commonwealth of Pennsylvania, acting through its Department of Public Welfare, to acquire certain energy-savings improvements. Certificates of participation in the amount of $15,580,000 were issued in March 2010. The certificates of participation are payable from lease payments made by the Commonwealth from an annual appropriation to its Department of Public Welfare.

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.

During April 2010, the SEA issued $17.36 million in additional Commonwealth Lease Revenue Bonds (the "Supplemental Arena Bonds"). Proceeds from the Supplemental Arena Bonds will be used to complete the Arena. As issued, the Supplemental Arena Bonds do not constitute debt of the Commonwealth but rather are limited obligations of the SEA payable solely from the Special Revenues pledged therefore. 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.

Pennsylvania Convention Center

In April 2010, the Commonwealth acquired (through either ownership or a long-term leasehold interest) the Pennsylvania Convention Center located in Philadelphia, Pennsylvania and the expansion thereto currently being constructed. Such acquisition was financed through the issuance by PEDFA (defined below) of $281.075 million of its revenue bonds (the "Convention Center Bonds"). The Commonwealth, the City of Philadelphia (the "City") and the Pennsylvania Convention Center Authority (the "Convention Center Authority") entered into an Operating Agreement (the "Operating Agreement") in connection with the issuance of the Convention Center Bonds and the acquisition of the Pennsylvania Convention Center which provides for the operation of the Pennsylvania Convention Center by the Convention Center Authority (which will also lease the facility), for the City to make an annual payment of $15 million plus a percentage of its Hotel Room Rental Tax and Hospitality Promotion Tax revenues to support operations of the Pennsylvania Convention Center and for the Commonwealth to make payments to finance operating deficits and operating and capital reserve deposits of the Pennsylvania Convention Center and to pay debt service on the Convention Center Bonds. The Commonwealth has also entered into a Grant Agreement (the "Grant Agreement") with PEDFA and U.S. Bank National Association, as trustee for the Convention Center Bonds, with respect to the obligations of the Commonwealth to make the payments required under the Operating Agreement and related amounts due with respect to the Pennsylvania Convention Center and the Convention Center Bonds.

The obligations of the Commonwealth under the Operating Agreement and the Grant Agreement do not create indebtedness of the Commonwealth but are payable from (1) funds available in the Development and Tourism Fund and (2) other funds of the Commonwealth, subject to appropriation. Payments from the Development and Tourism Fund of up to $64,000,000 for up to 30 years (but not exceeding $880 million in the aggregate) have been appropriated by the General Assembly to the payment of debt issued with regard to the Pennsylvania Convention Center and for operating expenses of the Pennsylvania Convention Center; however, there is no requirement that funds in the Development and Tourism Fund be so applied. Moneys in the Development and Tourism Fund have also been appropriated to a number of other projects and could be appropriated to additional projects in the future. 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.

Any payments due from the Commonwealth under the Operating Agreement and the Grant Agreement which are not made from the Development and Tourism Fund are subject to annual appropriation by the General Assembly. It is currently projected that payments in excess of those permitted to be made from the Development and Tourism Fund will be required to satisfy the Commonwealth's obligations under the Operating Agreement and the Grant Agreement.

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 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 April 30, 2010, the CFA has issued $242.0 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. Based on the amount of bonds issued to date by the CFA it is estimated that as of June 1, 2010, the CFA will have $1,306.6 million in outstanding bond debt. With respect to the $1,306.6 million of outstanding CFA debt, the Commonwealth's General Fund is responsible for $906.6 million and the Pennsylvania Gaming and Economic Development and Tourism Fund is responsible for $400 million in outstanding 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.

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 employer rate is 4.78 percent. For fiscal year 2011, the PSERS Board has certified an employer rate of 8.22 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 employer contribution rate to PSERS will increase to 10.59 percent in fiscal year 2012. The projected fiscal year 2012 employer rate is being suppressed 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, 2009, the employer contribution rate is projected to increase to 29.22 percent of payroll.

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 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)]
2005..................................	$2,058	$10,007
2006..................................	2,216	12,163
2007..................................	914	9,438
2008..................................	3,801	9,924
2009.................................	NA	15,739

(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 $438.49 million in bonds outstanding as of December 31, 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 $1,117.2 million in revenue bond debt outstanding as of December 31, 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 $1,876.8 million of debt outstanding as of December 31, 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 $27.4 million in bonds outstanding as of December 31, 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 $8,889.5 million in bonds outstanding as of December 31, 2009.

Pennsylvania Higher Educational Facilities Authority ("PHEFA"). The PHEFA is a public corporation of the Commonwealth established to finance college facilities. As of December 31, 2009, the PHEFA had $5,912.4 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 $363.4 million in revenue bond debt outstanding on December 31, 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 $23.1 million of revenue bonds outstanding as of December 31, 2009.

Pennsylvania Turnpike Commission ("PTC"). The PTC operates the Pennsylvania Turnpike System ("System"). Its outstanding indebtedness, $6,089.2 million as of December 31, 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 $2,378.5 million of revenue bonds outstanding as of December 31, 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 September 16, 2009.

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 has 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.

MCARE/HCPRA Case

On April 15, 2010, the Commonwealth Court of Pennsylvania issued two separate decisions granting summary relief in favor of the Petitioners in *The Pennsylvania Medical Society, et. al v. The Department of Public Welfare of the Commonwealth of Pennsylvania and the Office of the Budget of the Commonwealth of Pennsylvania* (584 M.D. 2008) and *The Hospital & Healthsystem Association of Pennsylvania, et. al v. The Department of Public Welfare of the Commonwealth of Pennsylvania, and Office of the Budget of the Commonwealth of Pennsylvania* (585 M.D. 2008) (collectively, the "HCPRA Case") and in *The Hospital & Healthsystem Association of Pennsylvania, et al. v. The Commonwealth of Pennsylvania, the Department of Insurance, the Treasury Department and the Office of the Budget of the Commonwealth of Pennsylvania* (522 M.D. 2009) and *The Pennsylvania Medical Society, et. al, v. The Commonwealth of Pennsylvania, the Department of Insurance, the Treasury Department and the Office of the Budget of the Commonwealth of Pennsylvania* (523 M.D. 2009) (collectively the "MCARE Case").

The Medical Care Availability and Reduction of Error ("MCARE") Fund is a special fund established within the Treasury pursuant to Act 13 of 2002 that pays claims against health providers for losses or damages awarded in medical professional liability actions in excess of their basic insurance coverage. All health care providers in Pennsylvania are required to pay annual assessments to the MCARE Fund. The Health Care Provider Retention ("HCPR") Account was a special account within the Commonwealth's General Fund established pursuant to Act 44 of 2003. The HCPR Account received a portion of the taxes charged on cigarettes and the monies in the HCPR Account were subject to annual appropriations by the General Assembly.

During the years 2003-2007, eligible health care providers in Pennsylvania were granted $946 million in abatements with respect to their MCARE assessments. Also during those years, $330 million was transferred from the HCPR Account to the MCARE Fund in order to assist the MCARE Fund in paying claims and meeting its other obligations.

As part of the fiscal year 2010 budget legislation, the General Assembly abolished the HCPR Account and transferred the $708 million remaining in the HCPR Account to the General Fund. The General Assembly also transferred $100 million from the MCARE Fund to the General Fund.

The Commonwealth Court held by a vote of four to one in the HCPRA Case that the Commonwealth had a duty to transfer funds from the HCPR Account to the MCARE Fund equal to the aggregate amount of abatements granted between 2003 and 2007. Subject to an accounting of the MCARE Fund and the HCPR Account, the amount of additional transfers to the MCARE Fund that would be required under the Commonwealth Court's ruling is between $446 and $616 million. The Commonwealth Court also held in the MCARE Case by a vote of four to one that the transfer of $100 million from the MCARE Fund to the General Fund was unlawful and violated the Petitioners' alleged vested rights in that money.

The Commonwealth believes the Commonwealth Court committed both factual and legal errors in rendering these decisions and intends to appeal these decisions to the Pennsylvania Supreme Court. An appeal to the Pennsylvania Supreme Court will result in an automatic stay of the relief pending resolution of the Commonwealth's appeal, subject to further court order.

In the event of a final decision in any litigation which is adverse to the Commonwealth and requires the payment or redistribution of Commonwealth funds or assets, the statutorily established administrative and budgetary processes are used to provide the funds or authority to fulfill the Commonwealth's liabilities.

RATINGS

Moody's Investors Service ("Moody's") has assigned its municipal bond rating of "Aa1" 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

Federal Income Tax Treatment of the Second Series A Bonds

Numerous provisions of the Internal Revenue Code of 1986, as amended (the "Code"), affect the issuers of state and local government bonds, such as the Commonwealth, and impair or restrict the ability of the Commonwealth to finance projects on a tax-exempt basis. Failure on the part of the Commonwealth to comply with any one or more of such provisions of the Code, or any regulations under the Code, could render interest on the Second Series A Bonds includable in the gross income of the owners thereof for purposes of federal income tax retroactively to the date of issuance of the Second Series A Bonds. Among these provisions are more restrictive rules relating to: (a) investment of funds treated as proceeds of the Second Series A Bonds; (b) the advance refunding of tax-exempt bonds; and (c) the use of proceeds of the Second Series A Bonds to benefit private activities. In addition, under the Code, the Commonwealth is required to file an information return with respect to the Second Series A Bonds and, if applicable, to "rebate" to the federal government certain arbitrage profits on an ongoing basis throughout the term of the issue constituting the Second Series A Bonds. Bond Counsel has not undertaken to determine (or to inform any person) whether any action taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Second Series A Bonds may affect the tax status of interest on the Second Series A Bonds.

Other provisions of the Code affect the purchasers and holders of certain state and local government bonds such as the Second Series A Bonds. Prospective purchasers of the Second Series A Bonds should be aware that: (i) Section 265 of the Code denies a deduction for interest on (a) indebtedness incurred or continued to purchase or carry certain state or local government bonds, such as the Second Series A Bonds or, (b) in the case of a financial institution, that portion of a financial institution's interest expense allocated to interest on certain state or local government bonds, such as the Second Series A Bonds, unless the issuer of the state or local government bonds designates the bonds as "qualified tax-exempt obligations" for the purpose and effect contemplated by Section 265(b)(3)(B) of the Code (the Commonwealth has not designated the Second Series A Bonds as "qualified tax exempt obligations" under Section 265(b)(3)(B) of the Code, as such phrase is defined in the Code); (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(1) of the Code reduces the deduction for loss reserves by 15% of the sum of certain items, including interest and amounts treated as such on certain state or local government bonds, such as the Second Series A Bonds; (iii) interest on certain state or local government bonds, such as the Second Series A Bonds, earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iv) if a Subchapter S corporation has passive investment income (which passive investment income will include interest on state and local government bonds such as the Second Series A Bonds) exceeding 25% of such Subchapter S corporation's gross receipts and if such Subchapter S corporation has Subchapter "C" earnings and profits, then interest income derived from state and local government bonds, such as the Second Series A Bonds, may be subject to federal income tax under Section 1375 of the Code; and (v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on certain state or local government bonds such as the Second Series A Bonds.

The Second Series A Bonds have been offered at a premium ("original issue premium") over their principal amount. For federal income tax purposes, original issue premium is amortizable periodically over the term of a Second Series A Bond through reductions in the holder's tax basis for the Second Series A Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortizable premium is accounted for as reducing the tax-exempt interest on the Second Series A Bond rather than creating a deductible expense or loss. Holders should consult their tax advisers for an explanation of the amortization rules.

Tax Exemption

In the opinion of Bond Counsel, assuming continuing compliance by the Commonwealth with certain certifications and agreements relating to the use of Second Series A Bond proceeds and covenants to comply with provisions of the Code and any applicable regulations thereunder, now or hereafter enacted, interest on the Second Series A Bonds is not includable in the gross income of the holders of the Second Series A Bonds under Section 103(a) of the Code and interest on the Second Series A Bonds is not an item of tax preference for purposes of the federal individual and corporate alternative minimum taxes, except as described under the caption "Federal Tax Laws" above. Other provisions of the Code will affect certain purchasers and holders of the Second Series A Bonds. See "Federal Tax Laws" above.

Regulations, Future Legislation

Under the provisions of the Code, the Treasury Department is authorized and empowered to promulgate regulations implementing the intent of Congress under the Code, which could affect the tax-exemption and/or tax consequences of holding tax-exempt obligations such as the Second Series A Bonds. In addition, legislation may be introduced and enacted in the future which could change the provisions of the Code relating to tax-exempt bonds of a state or local government unit, such as the Commonwealth, or the taxability of interest in general.

No representation is made or can be made by the Commonwealth, or any other party associated with the issuance of the Second Series A Bonds as to whether or not any other legislation now or hereafter introduced and enacted will be applied retroactively so as to subject interest on the Second Series A Bonds to federal income taxes or so as to otherwise affect the marketability or market value of the Second Series A Bonds.

EACH PURCHASER OF THE SECOND SERIES A BONDS SHOULD CONSULT HIS OR HER OWN TAX ADVISOR REGARDING ANY CHANGES IN THE STATUS OF PENDING OR PROPOSED FEDERAL TAX LEGISLATION. ANY STATEMENTS REGARDING TAX MATTERS HEREIN CANNOT BE RELIED UPON BY ANY PERSON TO AVOID TAX PENALTIES.

Federal Income Tax Treatment of the Second Series B Bonds

Interest on the Second Series B Bonds is includible in gross income for federal income tax purposes.

Additional Federal Income Tax Considerations Relating to the Second Series B Bonds

The following is a summary of certain anticipated federal income tax consequences of the purchase, ownership and disposition of the Second 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, possibly with retroactive effect, or differing interpretations. This summary does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances, nor 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 a Second Series B Bond 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. This summary focuses primarily on investors who will hold the Second Series B Bonds as "capital assets" (generally, property held for investment within the meaning of Code Section 1221), but much of the discussion is applicable to other investors. Potential purchasers of the Second Series B Bonds should consult their own tax advisors in determining the federal, state or local tax consequences to them of the purchase, ownership and disposition of the Second Series B Bonds.

Taxability of Stated Interest and Principal of Second Series B Bonds. In general, interest payable to holders of Second Series B Bonds who are not exempt from federal income tax will be treated as ordinary income, in the year paid, in the case of cash basis taxpayers, or the year accrued, in the case of accrual basis taxpayers. In addition, such interest will constitute "net investment income" which, for tax years beginning after December 31, 2012, may be taxed at a rate of 3.8% (subject to certain adjustments and limitations) in accordance with the Health Care and Education Reconciliation Act of 2010. Principal payments on the Second Series B Bonds, other than those attributable to any market discount, will be treated as a return of capital.

Sale or Redemption of the Second Series B Bonds. A holder of a Second Series B Bond's tax basis for such Second Series B Bond is the price such holder pays for the Second Series B Bond, reduced by (a) payments received other than "qualified periodic interest" and (b) amortized bond premium. Gain or loss recognized on a sale, exchange or redemption of a Second Series B Bond, measured by the difference between the amount realized and the Second Series B Bond's basis as so adjusted, will generally give rise to capital gain or loss if the Second Series B Bond is held as a capital asset. In addition, net gain upon disposition of the Second Series B Bonds, for tax years beginning after December 31, 2012, may be taxed at a rate of 3.8% (subject to certain adjustments and limitations) in accordance with the Health Care and Education Reconciliation Act of 2010. Defeasance of the Second Series B Bonds may result in a reissuance thereof, in which event a holder will also recognize taxable gain or loss as discussed in the previous sentence. In the case of a subsequent holder, a portion of any gain will generally be treated as ordinary income to the extent of any market discount accrued to the date of disposition which was not previously reported as ordinary income.

Backup Withholding. A holder of a Second Series B Bond may, under certain circumstances, be subject to "backup withholding" at a specified rate prescribed in the Code with respect to interest on the Second Series B Bonds. This withholding generally applies if the holder of a Second Series B Bond (a) fails to furnish the Trustee with its taxpayer identification number ("TIN"): (b) furnishes the Trustee an incorrect TIN; (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 Trustee or its securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is his correct number and that the holder is not subject to backup withholding. Backup withholding will not apply, however, with respect to payments made to certain holders of Second Series B Bonds, including payment to certain exempt recipients (such as certain exempt organizations) and to certain Nonresidents (as defined below).

The Trustee will report to the holders of Second Series B Bonds and to the IRS for each calendar year the amount of any "reportable payments" during such year and the amount of tax withheld, if any, with respect to payments on the Second Series B Bonds.

Foreign Holders. Under the Code, interest with respect to Second Series B Bonds held by nonresident alien individuals, foreign corporations or other non-United States persons ("Nonresidents") generally will not be subject to the 30 percent United States withholding tax if the Trustee (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 a Second Series B Bond is a Nonresident. The withholding tax, if applicable, may be reduced or eliminated by an applicable tax treaty. However, interest that is effectively connected with a United States business conducted by a Nonresident holder of a Second Series B Bond will generally be subject to the regular United States income tax.

INVESTORS WHO ARE NONRESIDENTS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE SPECIFIC TAX CONSEQUENCES TO THEM OF OWNING SECOND SERIES B BONDS.

THE FOREGOING SUMMARY AS TO SECOND SERIES B BONDS IS NOT INTENDED AS AN EXHAUSTIVE RECITAL OF THE POTENTIAL TAX CONSEQUENCES OF OWNING THE SECOND SERIES B BONDS. PROSPECTIVE PURCHASERS OF THE SECOND SERIES B BONDS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF OWNING THE SECOND SERIES B BONDS. BOND COUNSEL WILL NOT DELIVER ANY OPINION WITH RESPECT TO ANY FEDERAL TAX CONSEQUENCES OF OWNING THE SECOND SERIES B BONDS AND WILL NOT DELIVER ANY OPINION AS TO STATE OR LOCAL TAX CONSEQUENCES EXCEPT FOR THE MATTERS SET FORTH UNDER THE CAPTION "STATE TAX MATTERS" BELOW. ANY STATEMENTS REGARDING TAX MATTERS HEREIN CANNOT BE RELIED UPON BY ANY PERSON TO AVOID TAX PENALTIES.

State Tax Matters

In the opinion of Bond Counsel under the laws of the Commonwealth, the Bonds and interest on the Bonds shall be free from taxation for State and local purposes within the Commonwealth, but this exemption shall not extend to gift, estate, succession or inheritance taxes or any other taxes not levied directly on the Bonds or the interest thereon. Under the laws of the Commonwealth, 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 of Pennsylvania.

The Commonwealth will issue its certificates regarding the facts, estimates and circumstances in existence on the date of delivery of the Bonds and regarding the anticipated use of the proceeds of the Bonds. The Commonwealth will certify that on the basis of the facts, estimates and circumstances in existence on the date of issuance of the Bonds, the Commonwealth does not reasonably expect to use the proceeds of the Bonds in a manner that would cause the

Bonds to be or become "arbitrage bonds" or "private activity bonds" as those terms are defined in Section 148 and Section 141 of the Code.

THE ABOVE SUMMARY OF POSSIBLE TAX CONSEQUENCES IS NOT EXHAUSTIVE OR COMPLETE. ALL PURCHASERS OF THE BONDS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE POSSIBLE FEDERAL, STATE AND LOCAL INCOME TAX CONSEQUENCES OF OWNERSHIP OF THE BONDS. ANY STATEMENTS REGARDING TAX MATTERS HEREIN CANNOT BE RELIED UPON BY ANY PERSON TO AVOID TAX PENALTIES.

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 May 19, 2010, the Second Series A Bonds were awarded to a selling group represented by J.P. Morgan Securities Inc. (the "Second Series A Underwriters") for a purchase price of $512,789,656.96 which is equivalent to the principal amount of the Second Series A Bonds, less Underwriters' discount of $812,468.54 plus original issue premium of $62,502,125.50. The Second Series B Bonds were awarded to a selling group represented by Banc of America Merrill Lynch (the "Second Series B Underwriters") for a purchase price of $545,976,353.50 which is equivalent to the principal amount of the Second Series B Bonds, less Underwriters' discount of $1,305,531.75 less original issue discount of $1,618,114.75. The Second Series A Underwriters and the Second Series B Underwriters have supplied the public offering yields and prices of the Bonds shown on the inside cover hereof. If all of the Second Series A Bonds are resold to the public at such yields, the underwriters' discount will approximate 0.1801083 percent of the aggregate principal amount of the Second Series A Bonds. If all of the Second Series B Bonds are resold to the public at such yields, the underwriters' discount will approximate 0.2378451 percent of the aggregate principal amount of the Second Series B Bonds. The Second Series A Underwriters and the Second Series B 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 Stevens & Lee, a professional corporation, Bond Counsel. A copy of the opinion of Bond Counsel for each series of Bonds will accompany the Bonds delivered to DTC. Copies of the opinion of the Attorney General, together with additional copies of the opinions 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.

.

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.

[INTENTIONALLY LEFT BLANK]

The execution of this Official Statement has been authorized in the Resolutions and may be executed in any number or counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same document.

/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 February 28, 2010	$ 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 February 28, 2010....................	$ 8,038,916,507
(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 February 28, 2010	$ 48,038,199,629
(iv)	The amount of such debt scheduled to be repaid during the remainder of the current fiscal year	$ 83,205,000
(v)	The amount of debt authorized by law to be issued, but not yet incurred	$ 74,939,406,468
(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	$ 8,252,148,483

IN TESTIMONY WHEREOF, I have set my hand and affixed the seal of the Auditor General, this 1st day of March 2010.

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

(Seal)

[THIS PAGE INTENTIONALLY LEFT BLANK]

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 2009, agribusiness and food related industries reached export sales surpassing $1.5 billion in economic activity. Over 63,000 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.

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 in domestic and 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 77 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 2009 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, 12.6 million people in 2009, 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 2000 to 2009 and the age distribution of the population for 2008.

Population Trends
Pennsylvania, Middle Atlantic Region and the United States
2000-2009

	Total Population In Thousands			Total Population as a % of 2000 base		
As of July 1	**PA**	**Middle Atlantic Region [(a)]**	**U.S.**	**PA**	**Middle Atlantic Region [(a)]**	**U.S.**
2000	12,285	39,714	282,171	100%	100%	100%
2001	12,299	39,876	285,081	100	100	101
2002	12,326	40,031	287,803	100	101	102
2003	12,357	40,171	290,326	101	101	103
2004	12,388	40,296	293,045	101	101	104
2005	12,418	40,369	295,753	101	102	105
2006	12,471	40,450	298,593	102	102	106
2007	12,522	40,580	301,579	102	102	107
2008	12,566	40,696	304,374	102	103	108
2009	12,604	40,854	307,006	103	103	109

[(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	25.8	26.2	27.2
25-44 years	25.8	27.1	27.4
45-64 years	27.3	26.7	25.7
65 years and over	15.2	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 2009 decreased at an average annual rate of 0.1 percent compared with a 0.1 percent rate for the Middle Atlantic region and 0.07 percent rate for the U.S. The following table shows employment trends from 2000 through 2009.

Non-Agricultural Establishment Employment Trends
Pennsylvania, Middle Atlantic Region and the United States
2000-2009

	Total Establishment Employment In Thousands			Total Establishment Employment as a % of 2000 base		
Calendar Year	PA	Middle Atlantic Region[a]	US	PA	Middle Atlantic Region[a]	US
2000	5,691	18,324	131,785	100 %	100 %	100 %
2001	5,682	18,274	131,826	100	100	100
2002	5,640	18,087	130,341	99	99	99
2003	5,611	17,999	129,999	98	98	98
2004	5,644	18,108	131,435	99	99	99
2005	5,702	18,278	133,703	100	100	101
2006	5,756	18,446	136,086	101	101	103
2007	5,797	18,610	137,598	102	102	104
2008	5,799	18,640	136,790	102	102	104
2009	5,608	18,056	130,920	98	98	99

[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 89.8 percent of total employment by 2009. Consequently, manufacturing employment constitutes a diminished share of total employment within the commonwealth. Manufacturing, contributing 10.2 percent of 2009 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 2009, the services sector accounted for 47.0 percent of all non-agricultural employment while the trade sector accounted for 15.1 percent. The following table shows trends in employment by sector for Pennsylvania from 2005 through 2009.

Non-Agricultural Establishment Employment by Sector
Pennsylvania
2005-2009

(In Thousands)

	CALENDAR YEAR									
	2005		2006		2007		2008		2009	
	Employees	%	Employees	%	Employees	%	Employees	%	Employees	%
Manufacturing:										
Durable………………	412.9	7.2	414.4	7.2	407.4	7.0	398.5	6.9	344.7	6.1
Non-Durable…………	266.5	4.7	256.0	4.4	251.7	4.3	245.2	4.2	228.9	4.1
Total Manufacturing[d]……	679.4	11.9	670.4	11.6	659.1	11.4	643.7	11.1	573.6	10.2
Non-Manufacturing:										
Trade[a]………………	1,120.3	19.6	1,125.8	19.6	1,134.2	19.6	887.1	15.3	849.4	15.1
Finance[b]……………	335.7	5.9	335.0	5.8	332.8	5.7	329.8	5.7	318.9	5.7
Services……………..	2,321.1	40.7	2,365.0	41.1	2,400.6	41.4	2,674.5	46.1	2,634.3	47.0
Government…………	745.1	13.1	745.6	13.0	749.4	12.9	749.3	12.9	755.9	13.5
Utilities[c]……………..	225.2	3.9	233.5	4.1	239.1	4.1	238.8	4.1	229.5	4.1
Construction………..	255.7	4.5	261.0	4.5	262.3	4.5	254.6	4.4	225.3	4.0
Mining………………	19.0	0.3	19.7	0.3	20.4	0.4	21.6	0.4	21.6	0.4
Total Non-Manufacturing[d]	5,022.1	88.1	5,085.6	88.2	5,138.8	88.6	5,155.7	88.9	5,034.9	89.8
Total Employees[d][e]	5,701.5	100.0	5,756.0	99.8	5,797.9	100.0	5,799.4	100.0	5,608.5	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 2009.

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

	2009 Calendar Year	
	Pennsylvania	United States
Manufacturing.......................................	10.2%	9.1%
Trade[a]	15.1	15.3
Finance[b]...	5.7	5.9
Services...	47.0	44.0
Government...	13.5	17.2
Utilities[c]	4.1	3.7
Construction..	4.0	4.6
Mining...	0.4	0.2
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 about one-tenth of total non-agricultural employment in Pennsylvania, the fabricated metals industries employed the largest number of workers. Employment in fabricated metals industries was 13.8 percent of Pennsylvania manufacturing employment but only 1.4 percent of total Pennsylvania non-agricultural employment in 2009. The following table shows trends in manufacturing employment by industry for Pennsylvania from 2005 through 2009.

Manufacturing Establishment Employment by Industry
Pennsylvania
2005-2009
(In Thousands)

	CALENDAR YEAR									
	2005		2006		2007		2008		2009	
	Employees	%	Employees	%	Employees	%	Employees	%	Employees	%
Durable Goods:										
Primary Metals…………….	43.0	6.2	43.5	6.5	42.6	6.5	41.6	6.5	35.5	6.2
Fabricated Metals………….	90.1	12.8	90.9	13.6	91.5	13.9	91.7	14.2	79.1	13.8
Machinery (excluding electrical)….	55.6	7.9	57.0	8.5	56.8	8.6	56.4	8.8	47.6	8.3
Electrical Equipment……….	25.8	3.7	26.7	4.0	26.9	4.1	27.1	4.2	24.6	4.3
Transportation Equipment….	43.7	6.2	44.3	6.6	43.5	6.6	43.6	6.8	38.8	6.8
Furniture Related Products…..	24.0	3.5	23.7	3.5	21.7	3.3	20.3	3.2	16.0	2.8
Other Durable Goods………	130.7	19.2	128.3	19.1	124.4	18.9	117.8	18.3	103.1	18.0
Total Durable Goods[(a)]…...	412.9	59.5	414.4	61.8	407.4	61.8	398.5	61.9	344.7	60.1
Non-Durable Goods:										
Pharmaceutical/Medicine…	21.9	3.3	21.9	3.3	22.0	3.3	22.3	3.5	21.7	3.8
Food Products…………...	70.9	10.5	68.9	10.3	69.0	10.5	67.8	10.5	66.8	11.6
Chemical Products…………	49.2	7.6	46.7	7.0	46.4	7.0	45.9	7.1	43.3	7.5
Printing and Publishing……	37.1	5.5	36.4	5.4	35.2	5.3	33.2	5.2	29.9	5.2
Plastics/Rubber Products…….	40.2	5.9	39.8	5.9	39.5	6.0	39.1	6.1	34.8	6.1
Other Non-Durable Goods…	47.2	7.5	42.3	6.3	39.6	6.0	37.0	5.7	32.4	5.6
Total Non-Durable Goods[(a)]	266.5	40.3	256.0	38.2	251.7	38.2	245.3	38.1	228.9	39.9
Total Manufacturing Employees[(a)]……………	679.4	100.0	670.4	100.0	659.1	100.0	643.8	100.0	573.6	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 8.1 percent in 2009 compared to 4.3 percent annual unemployment rate in 2007. As of February 2010, the most recent month for which figures are available, Pennsylvania had a seasonally adjusted annual unemployment rate of 9.8 percent. The following table represents the annual non-adjusted unemployment rate in Pennsylvania, the Middle Atlantic Region, and the United States from 2000 through 2009.

Annual Average Unemployment Rate
Pennsylvania, Middle Atlantic Region and the United States
2000-2009

Calendar Year	Pennsylvania	Middle Atlantic Region[(a)]	United States
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	4.3	4.4	4.6
2008	5.3	5.3	5.8
2009	8.1	8.5	9.3

[(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 2009

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

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

Personal Income

Personal income in the commonwealth for 2009 is $498.8 billion, a decrease of 0.1 percent over the previous year. During the same period, national personal income decreased by 1.7 percent. Based on the 2009 personal income estimates, per capita income is at $39,578 in the commonwealth compared to per capita income in the United States of $39,138. The following tables represent annual personal income and per capita income from 2000 through 2009.

Personal Income
Pennsylvania, Mideast Region and the United States
2000-2009

	Total Personal Income Dollars in Millions			Total Personal Income As a % of 2000 base		
Year	**PA**	**Mideast Region[(a)]**	**US.[b)]**	**PA**	**Mideast Region[(a)]**	**US**
2000	$ 369,918	$1,585,503	$ 8,554,866	100 %	100 %	100 %
2001	377,188	1,637,586	8,878,830	102	103	104
2002	387,490	1,662,885	9,054,781	105	105	106
2003	399,420	1,707,810	9,369,072	108	108	110
2004	417,587	1,808,646	9,928,790	113	114	116
2005	432,040	1,899,255	10,476,669	117	120	122
2006	462,401	2,047,041	11,256,516	125	129	132
2007	485,102	2,181,571	11,879,836	131	138	139
2008	499,669	2,242,857	12,225,589	135	141	143
2009	498,867	2,204,610	12,015,534	134	139	140

[(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
2000-2009

	Per Capita Income			As % of US	
Calendar Year	**PA**	**Mideast Region[(a)]**	**U.S.**	**PA**	**Mideast Region[(a)]**
2000	$ 30,110	$ 34,183	$ 30,318	99 %	113 %
2001	30,667	35,122	31,145	98	113
2002	31,436	35,489	31,462	100	113
2003	32,322	36,289	32,271	100	112
2004	33,708	38,281	33,881	99	113
2005	34,791	40,090	35,424	98	113
2006	37,078	43,095	37,698	98	114
2007	38,738	45,767	39,392	98	116
2008	39,762	46,900	40,166	99	117
2009	39,578	45,893	39,138	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 2005 through 2009.

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			
2005	3.5%	5.0 %	5.5%
2006	7.0	7.8	7.4
2007	4.9	6.6	5.5
2008	3.0	2.8	2.9
2009	-0.2	-1.7	-1.7
Manufacturing			
2005	1.2%	0.8%	2.1%
2006	3.7	2.6	3.8
2007	0.8	1.6	1.9
2008	1.3	0.5	-0.5
2009	-9.7	-9.4	-10.5
Trade [b]			
2005	4.1%	4.1%	4.9%
2006	3.9	3.8	4.7
2007	3.4	4.1	4.1
2008	1.7	0.7	0.8
2009	-4.2	-5.4	-6.0
Finance[c]			
2005	4.1%	7.4%	7.0%
2006	7.2	15.3	9.8
2007	3.2	8.4	5.0
2008	2.3	-0.4	-0.3
2003	-2.3	-11.7	-6.9
Services			
2005	6.6%	7.3%	8.1%
2006	8.2	8.5	9.6
2007	6.7	7.1	7.0
2008	4.7	5.1	-0.3
2009	-0.6	-1.3	-2.0
Utilities			
2005	-3.6%	-2.0%	-1.1%
2006	5.5	12.0	14.6
2007	3.6	0.4	0.5
2008	4.6	3.4	4.8
2009	1.9	2.7	4.5
Construction			
2005	4.8%	5.0%	7.4%
2006	5.3	6.5	7.3
2007	0.2	2.0	0.3
2008	-7.0	-4.2	-7.8
2009	-12.3	-11.7	-16.3
Mining			
2005	11.6%	13.0%	15.2%
2006	17.7	16.7	22.4
2007	-8.1	-14.3	-7.7
2008	13.8	16.7	17.1
2009	0.5	0.5	-8.3w

[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.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

The commonwealth's average hourly wage rate of $16.28 for manufacturing and production workers compares below the national average of $18.62 for 2009. The following table presents the average hourly wage rates for 2005 through 2009.

Average Hourly Wages
Production Workers on Manufacturing Payrolls
Pennsylvania and the United States
2005-2009

Calendar Year	PA	US
2005	$ 15.26	$ 16.13
2006	15.38	16.76
2007	15.48	17.43
2008	15.61	18.08
2009	16.28	18.62

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
1999-2008

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	695,569,570,400	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.

[INTENTIONALLY LEFT BLANK]

APPENDIX C

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.

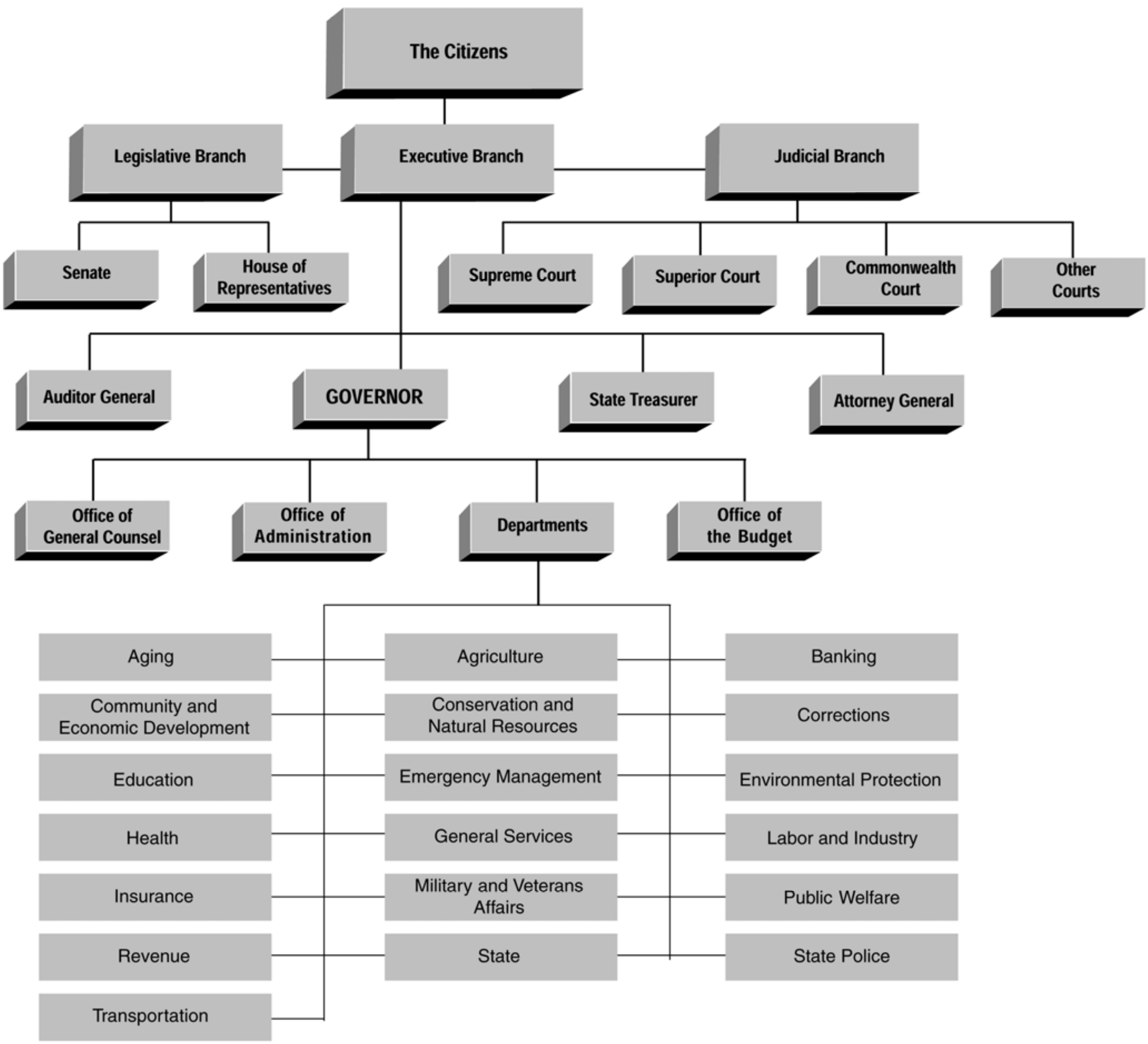
The Auditor General is charged with making audits of completed financial transactions. The Department of the Auditor General is under the Auditor General's direct jurisdiction.

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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F

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

May 27, 2010

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

Re: Commonwealth of Pennsylvania General Obligation Bonds, Second Series A and Second 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 $451,100,000 aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, Second Series A of 2010 (the "Second Series A Bonds") and the $548,900,000 aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, Second Series B of 2010 (the "Second Series B Bonds" and together with the Second 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 May 1 and November 1 of each year commencing November 1, 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 May 11, 2010, and May 19, 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 $900,000,000.00 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 Second 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

STEVENS & LEE
LAWYERS & CONSULTANTS
111 North 6th Street
P.O. Box 679
Reading, PA 19603-0679
(610) 478-2000 Fax (610) 376-5610
www.stevenslee.com

May __, 2010

$________ Commonwealth of Pennsylvania
General Obligation Bonds, Second Series A of 2010
(Tax-Exempt)

TO THE REGISTERED OWNERS OF THE ABOVE-CAPTIONED BONDS:

We have served as Bond Counsel in connection with the issuance by Commonwealth of Pennsylvania (the "Commonwealth") of its $________ aggregate principal amount General Obligation Bonds, Second Series A of 2010 (Tax-Exempt) (the "Bonds"). The Bonds are dated and bear interest from the date of issuance and delivery thereof and are being issued in registered form, without coupons, pursuant to (i) the provisions of Section 7 of Article VIII of the Constitution of the Commonwealth; (ii) the Capital Facilities Debt Enabling Act, Act No. 1999-1, approved February 9, 1999, as amended; and (iii) annual capital budget bills and various bond authorization bills enacted by the General Assembly of the Commonwealth. The Bonds have also been authorized and issued pursuant to resolutions adopted by the Governor, the State Treasurer, and the Auditor General (the "Issuing Officials") on May 11, 2010, and on May __, 2010 (collectively, the "Resolutions").

The Bonds are being issued to provide funds for various projects of the Commonwealth (collectively, the "Project") consisting of (1) financing various capital projects as detailed in the Resolutions; and (2) paying the costs and expenses of issuance of the Bonds.

The Commonwealth has executed the Nonarbitrage Certificate dated the date of issuance of the Bonds (the "Tax Certificate"), pursuant to which the Commonwealth has, among other things, covenanted that it will make no use of the proceeds of the Bonds and it has neither done nor suffered and will neither do nor suffer any other action which, if such use or action had been reasonably expected on the date of issue of the Bonds, would cause the Bonds to be "arbitrage bonds," or "private activity bonds" as those terms are defined in the Internal Revenue Code of 1986, as amended (the "Code"), and the applicable regulations thereunder. The Commonwealth has further covenanted that it will comply with the requirements of Section 148 and Section 141 of the Code and with the applicable regulations thereunder throughout the term of the Bonds.

In our capacity as Bond Counsel, we have reviewed: (a) copies of the Resolutions; (b) a copy of the certificate of the Auditor General as to tax revenues and outstanding debt of the Commonwealth; (c) the proceedings of the Commonwealth in connection with the issuance of

LAW OFFICES OF
STEVENS & LEE
A PROFESSIONAL CORPORATION

the Bonds; (d) a specimen copy of the Bonds; (e) the Tax Certificate executed and delivered pursuant to the provisions of the Code and the regulations applicable thereto; (f) a completed and executed Form 8038-G to be filed with the Internal Revenue Service; (g) the opinion of Tom Corbett, Attorney General of the Commonwealth; (h) the Certificate of ________________________, as purchaser of the Bonds (the "Purchaser"), dated the date hereof; and (i) the other documents, certificates and opinions executed and delivered at the closing held this day.

Based and in reliance upon our review of the foregoing, our attendance at the closing held this day and subject to the qualifications set forth herein, it is our opinion that, as of the date hereof, under existing law:

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 Issuing Officials have full and adequate legal power and authority to issue and sell the Bonds, and the Bonds have been validly authorized, issued and sold pursuant to proper action of such Issuing Officials.

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

4. The Bonds are enforceable in accordance with their terms, except as the legality, validity, binding nature and enforceability thereof may be limited by (a) applicable bankruptcy, insolvency or other laws or equitable principles now or hereafter affecting the enforcement of creditors' rights generally or (b) general principles of equity.

5. Interest on the Bonds is not includable in gross income for federal income tax purposes under Section 103(a) of the Code.

6. Under the laws of the Commonwealth of Pennsylvania, the Bonds and interest on the Bonds shall be free from taxation for State and local purposes within the Commonwealth of Pennsylvania, but this exemption shall not extend to gift, estate, succession or inheritance taxes or other taxes not levied directly on the Bonds or the interest thereon. Under the laws of the Commonwealth of Pennsylvania, 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 of Pennsylvania.

7. Under the Code, interest on the Bonds held by persons other than corporations (as defined for federal tax purposes) does not constitute an item of tax preference under Section 57 of the Code and thus is not subject to alternative minimum tax for federal income tax purposes.

8. Under the Code, interest on the Bonds held by a corporation (as defined for federal tax purposes) does not constitute an item of tax preference under Section 57 of the Code, and is not an adjustment in computing alternative minimum taxable income in the manner provided in Section 56 of the Code.

9. The Commonwealth has the power to provide for the payment of principal of and interest on 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 fees 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.

10. 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.

In connection with providing the foregoing opinions, we call to your attention to the following:

A. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other documents, agreements, instruments, reports and certificates furnished to us at or in connection with the issuance of the Bonds (including, without limitation, certificates, agreements and representations by the Commonwealth as to the expected use of proceeds of the Bonds, and as to its continuing compliance with Sections 148 and 141 of the Code to assure that the Bonds do not become "arbitrage bonds" or "private activity bonds") without undertaking to verify the same by independent investigation. We have also relied upon the accuracy of the representations and warranties and the performance of the covenants and agreements of the Commonwealth set forth in the Resolutions and the various certificates and other agreements delivered at or in connection with the closing held this day. We have also assumed the genuineness of the signatures appearing upon all the certificates, documents and instruments executed and delivered at closing.

B. In providing the opinion set forth in paragraph 5, above, we have assumed continuing compliance by the Commonwealth with the requirements of the Code and applicable regulations thereunder which must be met subsequent to the issuance of the Bonds in order that the interest thereon be and remain excluded from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with such requirements in the Tax Certificate. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds.

C. In providing the opinions set forth in paragraphs 7 and 8 above, we have assumed continuing compliance by the Commonwealth with the requirements of the Code and applicable regulations thereunder which must be met subsequent to the issuance of the Bonds in order that the interest thereon not constitute an item of tax preference under Section 57 of the Code. Failure to comply with such requirements could cause the interest on the Bonds to constitute an item of tax preference under Section 57 of the Code retroactive to the date of issuance of the Bonds.

D. Except as specifically set forth above, we express no opinion regarding other federal income tax consequences arising with respect to the Bonds, including, without limitation, the treatment for federal income tax purposes of gain or loss, if any, upon the sale, redemption, or other disposition of the Bonds prior to maturity of the Bonds subject to original issue discount and the effect, if any, of certain other provisions of the Code which could result in collateral federal income tax consequences to certain investors as a result of adjustments in the computation of tax liability dependent on tax-exempt interest.

E. We have not been engaged to verify, nor have we independently verified, the accuracy, completeness or truthfulness of any statements, certifications, information or financial statements set forth in the Preliminary Official Statement, dated May __, 2010 (the “Preliminary Official Statement”), or the Official Statement, dated May __, 2010 (the “Official Statement”), or otherwise used in connection with the offer and sale of the Bonds or set forth in or delivered by the Commonwealth officials. We express no opinion with respect to whether the Commonwealth, in connection with the sale of the Bonds or the preparation of the

Preliminary Official Statement or the Official Statement, has made any untrue statement of a material fact necessary in order to make any statements made therein not misleading.

F. We have not verified, and express no opinion as to the accuracy of, any “CUSIP” identification number which may be printed on any Bond.

STEVENS & LEE

[THIS PAGE INTENTIONALLY LEFT BLANK]

STEVENS & LEE
LAWYERS & CONSULTANTS
111 North 6th Street
P.O. Box 679
Reading, PA 19603-0679
(610) 478-2000 Fax (610) 376-5610
www.stevenslee.com

May __, 2010

$________ Commonwealth of Pennsylvania
General Obligation Bonds, Second Series B of 2010
(Federally Taxable – Build America Bonds – Issuer Subsidy)

TO THE REGISTERED OWNERS OF THE ABOVE-CAPTIONED BONDS:

We have served as Bond Counsel in connection with the issuance by Commonwealth of Pennsylvania (the "Commonwealth") of its $________ aggregate principal amount General Obligation Bonds, Second Series B of 2010 (Federally Taxable – Build America Bonds – Issuer Subsidy) (the "Bonds"). The Bonds are dated and bear interest from the date of issuance and delivery thereof and are being issued in registered form, without coupons, pursuant to (i) the provisions of Section 7 of Article VIII of the Constitution of the Commonwealth; (ii) the Capital Facilities Debt Enabling Act, Act No. 1999-1, approved February 9, 1999, as amended; and (iii) annual capital budget bills and various bond authorization bills enacted by the General Assembly of the Commonwealth. The Bonds have also been authorized and issued pursuant to resolutions adopted by the Governor, the State Treasurer, and the Auditor General (the "Issuing Officials") on May 11, 2010, and on May __, 2010 (collectively, the "Resolutions").

The Bonds are being issued to provide funds for various projects of the Commonwealth (collectively, the "Project") consisting of (1) financing various capital projects as detailed in the Resolutions; and (2) paying the costs and expenses of issuance of the Bonds.

In our capacity as Bond Counsel, we have reviewed: (a) copies of the Resolutions; (b) a copy of the certificate of the Auditor General as to tax revenues and outstanding debt of the Commonwealth; (c) the proceedings of the Commonwealth in connection with the issuance of the Bonds; (d) a specimen copy of the Bonds; (e) the opinion of Tom Corbett, Attorney General of the Commonwealth; (f) the Certificate of ________________________, as purchaser of the Bonds (the "Purchaser"), dated the date hereof; and (i) the other documents, certificates and opinions executed and delivered at the closing held this day.

Based and in reliance upon our review of the foregoing, our attendance at the closing held this day and subject to the qualifications set forth herein, it is our opinion that, as of the date hereof, under existing law:

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 Issuing Officials have full and adequate legal power and authority to issue and sell the Bonds, and the Bonds have been validly authorized, issued and sold pursuant to proper action of such Issuing Officials.

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

4. The Bonds are enforceable in accordance with their terms, except as the legality, validity, binding nature and enforceability thereof may be limited by (a) applicable bankruptcy, insolvency or other laws or equitable principles now or hereafter affecting the enforcement of creditors' rights generally or (b) general principles of equity.

5. Under the laws of the Commonwealth of Pennsylvania, the Bonds and interest on the Bonds shall be free from taxation for State and local purposes within the Commonwealth of Pennsylvania, but this exemption shall not extend to gift, estate, succession or inheritance taxes or other taxes not levied directly on the Bonds or the interest thereon. Under the laws of the Commonwealth of Pennsylvania, 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 of Pennsylvania.

6. The Commonwealth has the power to provide for the payment of principal of and interest on 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 fees 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.

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.

In connection with providing the foregoing opinions, we call to your attention to the following:

A. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other documents, agreements, instruments, reports and certificates furnished to us at or in connection with the issuance of the Bonds without undertaking to verify the same by independent investigation. We have also relied upon the accuracy of the representations and warranties and the performance of the covenants and agreements of the Commonwealth set forth in the Resolutions and the various certificates and other agreements delivered at or in connection with the closing held this day. We have also assumed the genuineness of the signatures appearing upon all the certificates, documents and instruments executed and delivered at closing.

B. We express no opinion regarding federal income tax consequences arising with respect to the Bonds, including, without limitation, the treatment for federal income tax purposes of gain or loss, if any, upon the sale, redemption, or other disposition of the Bonds and the effect, if any, of certain other provisions of the Internal Revenue Code of 1986, as amended, which could result in collateral federal income tax consequences to certain investors.

C. We have not been engaged to verify, nor have we independently verified, the accuracy, completeness or truthfulness of any statements, certifications, information or financial statements set forth in the Preliminary Official Statement, dated May __, 2010 (the "Preliminary Official Statement"), or the Official Statement, dated May __, 2010 (the "Official Statement"), or otherwise used in connection with the offer and sale of the Bonds or set forth in or delivered by the Commonwealth officials. We express no opinion with respect to whether the Commonwealth, in connection with the sale of the Bonds or the preparation of the Preliminary Official Statement or the Official Statement, has made any untrue statement of a material fact necessary in order to make any statements made therein not misleading.

D. We have not verified, and express no opinion as to the accuracy of, any “CUSIP” identification number which may be printed on any Bond.

STEVENS & LEE

NOTICE OF SALE
$451,100,000*
Commonwealth of Pennsylvania
General Obligation Bonds
Second Series A of 2010
(Tax –Exempt)

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 Daylight Time, on

Wednesday, May 19, 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 $451,100,000* aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, Second Series A of 2010 (Tax-Exempt).

Bids must be submitted in accordance with this Notice of Sale prior to 11:00 A.M. Eastern Daylight 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 or time it will receive and open electronic bids to purchase the Second Series A Bonds;
2. increase or decrease the principal amount of the Second Series A Bonds;
3. adjust the respective par amounts of the Second Series A 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 Second Series A Bonds and the Second Series B Bonds as between such two series; and
4. determine the appropriate redemption provisions relative to the Second Series A Bonds based on prevailing market conditions at the time of the sale of the Bonds.

Changes to the Second Series A 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 May 19, 2010) and the time by which bids to purchase the Second Series A 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 Second Series A 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 Second Series A Bonds will be dated the date of issuance and delivery, and will bear such rate or rates of interest, payable semiannually on May 1 and November 1 in each year commencing November 1, 2010, as shall be fixed by the purchaser in its proposal for the purchase of the Second Series A Bonds. The Second Series A Bonds shall mature serially on May 1 in the respective years and in the respective amounts as set forth below:

Second Series A Bonds*

Due May 1*	Principal Amount*	Due May 1*	Principal Amount*
2011	$37,905,000	2017	$41,650,000
2012	35,925,000	2018	42,895,000
2013	37,005,000	2019	44,400,000
2014	38,115,000	2020	45,955,000
2015	39,255,000	2021	47,560,000
2016	40,435,000		

*Preliminary, subject to change.

Delivery of the Second Series A Bonds is proposed to occur on May 27, 2010, unless another date is set forth in any Amended Notice (the “Closing Date”).

The Second Series A 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 Second Series A 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 Second Series A 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 affected 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 Second Series A Bonds, shall be required to deposit the Second Series A Bond certificates in its account at DTC, registered in the name of Cede & Co. Interest on the Second Series A Bonds will be payable on each semi-annual interest payment date and principal of the Second Series A 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 Second Series A 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.

Optional Redemption

The Second Series A Bonds maturing in the years 2011 to 2020, inclusive, are not subject to redemption prior to maturity. The Second Series A Bonds, or portions thereof in integral multiples of $5,000, maturing on and after May 1, 2021, are subject to redemption at the option of the Commonwealth prior to scheduled maturity on and after May 1, 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.

Adjustment of Principal Amounts

The principal amount of each serial maturity of the Second Series A Bonds, and consequently each corresponding serial maturity of the Second Series A Bonds, are subject to adjustment by the Commonwealth of Pennsylvania after the receipt of bids for their purchase. Changes to be made will be communicated to the successful bidder not later than six (6) hours after the bids have been received and opened and will be made only as necessary to comply with the requirement of federal tax law applicable to refunding obligations in order to maintain exemption from federal income tax for interest payable thereon and in no case will reduce or increase the principal amount of each serial maturity of the Second Series A Bonds by more than 15 percent. The dollar amount bid for principal by the successful bidder will be adjusted proportionally to reflect any reduction or increase in the aggregate principal amount of the Second Series A Bonds, but the interest rates specified by the successful bidder for all maturities will not change. The successful bidder may not withdraw its bid as a result of any changes within these limits.

Interest Rate and Bidding Details

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

(i) all Second Series A Bonds of the same maturity date must bear the same rate of interest and no one Second Series A 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 Second Series A Bonds of any maturity must be greater than 98½% and less than 119% of that maturity's par value.

No bid for the Second Series A 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 (iii) above. No bid will be considered which does not offer to purchase all of the Second Series A 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 Second Series A Bonds, any purchase of such credit enhancement shall be at the sole option and expense of the successful bidder. If the Second Series A 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 Second Series A 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 Second Series A Bonds as affected, if at all, by such credit enhancement.

Failure of the Second Series A 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 Second Series A 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 Second Series A 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 Second Series A 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 Second Series A Bonds (the “Initial Reoffering Prices”) and certain other information to enable the Commonwealth to compute the yield on the Second Series A Bonds for federal income tax law purposes. The Purchaser will be required to provide a certificate regarding the issue price of the Second Series A Bonds prior to settlement for the Second Series A 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 sold a substantial amount (at least 10 percent) of each maturity of the Second Series A Bonds to the public at the initial reoffering prices. **(See form of certificate attached)**

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 Second Series A Bonds at prices not greater than the Initial Reoffering Prices, offer the Second Series A 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 Second Series A 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 Second Series A Bonds, including the delivery to the MSRB of the Official Statement and any advance refunding documents.

Basis of Awards

Award of the Second Series A Bonds will be made on or before 4:00 P.M. Eastern Daylight Time, on May 19, 2010 or, in the event of the announcement of an Amended Bid Date, the date specified in the Amended Notice. The Second Series A 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 Second Series A 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 Second Series A 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 Second Series A Bonds, May 27, 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 Second Series A 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 Daylight Time on the next business day following the verbal award of the Second Series A 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 May 11, 2010, issued with respect to the Second Series A 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 Second Series A 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 Second Series A 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 Second Series A Bonds, provided, however, that incorrect numbers shall not constitute grounds for a Purchaser of the Second Series A 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 Second Series A 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 Daylight 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 Second Series A Bonds if the Commonwealth shall fail to tender the Second Series A 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 Stevens and Lee, Reading, 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 Second Series A 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 Second Series A 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 Second Series A 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 Second Series A 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: May 11, 2010

$____________

COMMONWEALTH OF PENNSLYVANIA
GENERAL OBLIGATION BONDS, SECOND SERIES A OF 2010 (TAX-EXEMPT)

CERTIFICATE OF THE UNDERWRITERS

THIS CERTIFICATION is made in connection with the issuance this day by THE Commonwealth of Pennsylvania (the "Issuer"), of its General Obligation Bonds, Second Series A of 2010 (Tax-Exempt)(the "2010A Bonds") in the aggregate principal amount of $__________. The undersigned officer of __________________, as representative of itself and the selling group (collectively, the "Underwriters"), hereby certifies, to the best of its knowledge, information, and belief, based upon its records, as follows:

1. Defined Terms. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Issuer's Nonarbitrage Certificate of even date with respect to the 2010A Bonds.

2. Issue Price, Yield, Etc.

(a) The aggregate Initial Public Offering Price of all of the 2010A Bonds is $__________ (which represents the aggregate principal amount of the 2010A Bonds of $__________ less original issue discount of $__________ plus preissuance accrued interest of $0.00).

(b) On __________, 2010, which is the date on which we agreed to purchase the 2010A Bonds (the "Sale Date"), we made a bona fide public offering of the 2010A Bonds to the General Public. At that time, we reasonably expected that all of the 2010A Bonds would be sold to the General Public, at the prices thereof as set forth on the cover page to the Official Statement dated _____________, 2010, and have sold a substantial amount of each maturity (not less than 10% of each maturity) of the 2010A Bonds at such prices [if less than 10% of each maturity has been sold, add statement as to which maturity (ies) was/were not sold, whether conditions changed such that such maturity (ies) was/were not sold, and whether held for own account or for inventory] (the "Initial Public Offering Price").

(c) For purposes of this certificate, the term "General Public" means the general public of investors to whom the public offering was directed and does not include bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers, or similar capacity.

(d) The Initial Public Offering Price for the 2010A Bonds is not more than the fair market value of the 2010A Bonds as of the Sale Date.

3. Underwriter's Discount. The bond discount represents compensation to the Underwriters (or members of the underwriting group) solely for the Underwriters' service provided with respect to the 2010A Bonds.

4. Miscellaneous.

The Underwriters have not made or received and will not make or receive any payment with respect to its acquisition of the 2010A Bonds or the investment of the proceeds thereof which it has not disclosed to the Issuer and Stevens & Lee, as bond counsel ("Bond Counsel").

We understand that the foregoing information will be relied upon by the Issuer and the Issuer with respect to certain representations that are set forth in the Nonarbitrage Certificate and by Bond Counsel.

Dated: ____________   ________________________, as Representative

By:____
Authorized Officer

[THIS PAGE INTENTIONALLY LEFT BLANK]

NOTICE OF SALE
$548,900,000*
Commonwealth of Pennsylvania
General Obligation Bonds
Second Series B of 2010
(Federally Taxable – Build America Bonds – Issuer Subsidy)

Electronic bids will be received by the Commonwealth of Pennsylvania (the "Commonwealth"), via *PARITY*® ("Parity") in the manner described below, up to 12:00 Noon, Eastern Daylight Time, on

Wednesday, May 19, 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 $548,900,000* aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, Second Series B of 2010 (Federally Taxable – Build America Bonds – Issuer Subsidy), (the "Second Series B Bonds").

Bids must be submitted in accordance with this Notice of Sale prior to 12:00 Noon, Eastern Daylight 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 or time it will receive and open electronic bids to purchase the Second Series B Bonds;
2. increase or decrease the principal amount of the Second Series B Bonds;
3. adjust the respective par amounts of the Second Series A 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 Second Series A Bonds and the Second Series B Bonds as between such two series;
4. determine whether the Second Series B Bonds will be issued as federally taxable Build America Bonds or as tax exempt Bonds based on prevailing market conditions at the time of sale of the Second Series B Bonds; and,
5. determine the appropriate redemption provisions relative to the Second Series B Bonds based on prevailing market conditions at the time of the sale of the Second Series B Bonds.

Changes to the Second Series B 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 May 19, 2010) and the time by which bids to purchase the Second Series B 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 Second Series B 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 Second Series B Bonds will be dated the date of issuance and delivery, and will bear such rate or rates of interest, payable semiannually on May 1 and November 1 in each year commencing November 1, 2010, as shall be fixed by the purchaser in its proposal for the purchase of the Second Series B Bonds. The Second Series B Bonds shall mature serially on May 1 in the respective years and in the respective amounts as set forth below:

Second Series B Bonds*

Due May 1*	Principal Amount*	Due May 1*	Principal Amount*
2022	$49,940,000	2027	$63,400,000
2023	52,265,000	2028	66,660,000
2024	54,770,000	2029	70,150,000
2025	57,455,000	2030	73,900,000
2026	60,360,000		

*Preliminary, subject to change.

Delivery of the Second Series B Bonds is proposed to occur on May 27, 2010, unless another date is set forth in any Amended Notice (the “Closing Date”).

The Second Series B 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 Second Series B 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 Second Series B 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 affected 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 Second Series B Bonds, shall be required to deposit the Bond certificates in its account at DTC, registered in the name of Cede & Co. Interest on the Second Series B Bonds will be payable on each semi-annual interest payment date and principal of the Second Series B 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 Second Series B 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

A bidder may aggregate consecutive principal maturities of the Second 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 Second Series B Bonds.

Build America Bonds

The Commonwealth has elected to designate the Second 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 Second Series B Bonds, equal to 35% of the interest payable on the Second 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 Second Series B Bonds are subject to extraordinary optional redemption. **As a result of the Commonwealth's election to receive the Subsidy Payments, no federal income tax credits will be available to holders of the Second Series B Bonds.**

Optional Redemption

The Second Series B Bonds maturing in the years on or before May 1, 2020 are not subject to redemption prior to maturity. The Second Series B Bonds, or portions thereof in integral multiples of $5,000, maturing on and after May 1, 2021, are subject to redemption at the option of the Commonwealth prior to scheduled maturity on and after May 1, 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 on a pro-rata basis 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 – Second Series B Bonds

The Second 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 Second 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 Second 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 Second

Series B Bonds are to be redeemed, discounted to the date on which such Second 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 Second 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 Second Series B Bonds are reduced or eliminated.

"Treasury Rate" means, with respect to any redemption date for a particular Second 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.

Adjustment of Principal Amounts

The principal amount of each serial maturity of the Second Series B Bonds, and consequently each corresponding serial maturity of the Second Series B Bonds, are subject to adjustment by the Commonwealth of Pennsylvania after the receipt of bids for their purchase. Changes to be made will be communicated to the successful bidder not later than six (6) hours after the bids have been received and opened and will be made only as necessary to comply with the requirement of federal tax law applicable to refunding obligations in order to maintain exemption from federal income tax for interest payable thereon and in no case will reduce or increase the principal amount of each serial maturity of the Second Series B Bonds by more than 15 percent. The dollar amount bid for principal by the successful bidder will be adjusted proportionally to reflect any reduction or increase in the aggregate principal amount of the Second Series B Bonds, but the interest rates specified by the successful bidder for all maturities will not change. The successful bidder may not withdraw its bid as a result of any changes within these limits.

Interest Rate and Bidding Details

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

(i) all Second Series B Bonds of the same maturity date must bear the same rate of interest and no one Second Series B 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) for bids submitted for the Second 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 (May 1)	Maximum Reoffering Price	Maturity Date (May 1)	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 Second Series B 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 (iii) above. No bid will be considered which does not offer to purchase all of the Second Series B 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 Second Series B 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 Second Series B 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 Second Series B Bonds as affected, if at all, by such credit enhancement.

Failure of the Second Series B 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 Second Series B 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 Second Series B 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 Second Series B 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 Second Series B Bonds (the "Initial Reoffering Prices") and certain other information to enable the Commonwealth to compute the yield on the Second Series B Bonds for federal income tax law purposes. The Purchaser will be required to provide a certificate regarding the issue price of the Second Series B Bonds prior to settlement for the Second Series B Bonds in form satisfactory to the Commonwealth and Bond Counsel establishing that the Purchaser has made a bona fide public offering of the Second Series B Bonds at the initial reoffering prices and that, as of the date of the award of the Second Series B Bonds, the Purchaser sold a substantial amount (at least 10 percent) of each maturity of the Second Series B Bonds to the public at the initial reoffering prices. **(See form of certificate attached)**

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 Second Series B Bonds at prices not greater than the Initial Reoffering Prices, offer the Second Series B 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 Second Series B 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 Second Series B Bonds will be made on or before 4:00 P.M. Eastern Daylight Time, on May 19, 2010 or, in the event of the announcement of an Amended Bid Date, the date specified in the Amended Notice. The Second Series B 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 Second Series B 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 Second Series B 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 Second Series B Bonds, May 27, 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 Second Series B 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 12:00 Noon, Eastern Daylight Time on the next business day following the verbal award of the Second Series B 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 Second Series B 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 May 11, 2010, issued with respect to the Second Series B 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 Second Series B 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 Second Series B 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 Second Series B Bonds, provided, however, that incorrect numbers shall not constitute grounds for a Purchaser of the Second Series B 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 Second Series B 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 Daylight 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 Second Series B Bonds if the Commonwealth shall fail to tender the Second Series B 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 Stevens and Lee, Reading, 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 Second Series B 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 Second Series B 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 Second Series B 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: May 11, 2010

$___________

COMMONWEALTH OF PENNSYLVANIA

GENERAL OBLIGATION BONDS
SECOND SERIES B OF 2010 (FEDERALLY TAXABLE–
BUILD AMERICA BONDS – ISSUER SUBSIDY)

<u>CERTIFICATE OF THE UNDERWRITERS</u>

THIS CERTIFICATION is made in connection with the issuance this day by the Commonwealth of Pennsylvania (the "Issuer"), of its General Obligation Bonds, Second Series B of 2010 (Federally Taxable – Build America Bonds – Issuer Subsidy) (the "2010B Bonds") in the aggregate principal amount of $__________. The undersigned officer of __________________, as representative of itself and the selling group (collectively, the "Underwriters"), hereby certifies, to the best of its knowledge, information, and belief, based upon its records, as follows:

1. <u>Defined Terms</u>. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Issuer's Nonarbitrage Certificate of even date with respect to the 2010B Bonds.

2. <u>Issue Price, Yield, Etc.</u>

(a) The aggregate Initial Public Offering Price of all of the 2010B Bonds is $__________ (which represents the aggregate principal amount of the 2010B Bonds of $__________ less original issue discount of $__________ plus preissuance accrued interest of $0.00).

(b) On __________, 2010, which is the date on which we agreed to purchase the 2010B Bonds (the "Sale Date"), we made a bona fide public offering of the 2010B Bonds to the General Public. At that time, we reasonably expected that all of the 2010B Bonds would be sold to the General Public, at the prices thereof as set forth on the cover page to the Official Statement dated _____________, 2010, and have sold a substantial amount of each maturity (not less than 10% of each maturity) of the 2010B Bonds at such prices [if less than 10% of each maturity has been sold, add statement as to which maturity (ies) was/were not sold, whether conditions changed such that such maturity (ies) was/were not sold, and whether held for own account or for inventory] (the "Initial Public Offering Price").

(c) For purposes of this certificate, the term "General Public" means the general public of investors to whom the public offering was directed and does not include bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers, or similar capacity.

(d) The Initial Public Offering Price for the 2010B Bonds is not less than the fair market value of the 2010B Bonds as of the Sale Date.

3. Underwriter’s Discount. The bond discount represents compensation to the Underwriters (or members of the underwriting group) solely for the Underwriters’ service provided with respect to the 2010B Bonds.

4. Miscellaneous.

The Underwriters have not made or received and will not make or receive any payment with respect to its acquisition of the 2010B Bonds or the investment of the proceeds thereof which it has not disclosed to the Issuer and Stevens & Lee, as bond counsel (“Bond Counsel”).

We understand that the foregoing information will be relied upon by the Issuer and the Issuer with respect to certain representations that are set forth in the Nonarbitrage Certificate and by Bond Counsel.

Dated: ___________

______________________, as Representative

By:____
Authorized Officer

[THIS PAGE INTENTIONALLY LEFT BLANK]