COMMONWEALTH OF PENNSYLVANIA
$811,575,000
General Obligation Bonds
First Series of 2011
First Refunding Series of 2011

CERTIFICATE
of Certain Officials of the Commonwealth

A. Authorizing Amendment to the Official Statement dated October 18, 2011

The undersigned, TOM CORBETT, Governor; ROBERT M. McCORD, State Treasurer; and JACK WAGNER, Auditor General, in our capacities as Issuing Officials (the "Issuing Officials"), under 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, DO HEREBY CERTIFY THAT:

1. The Amendment dated October 25, 2011 to the Official Statement dated October 18, 2011, a copy of which Amendment is attached hereto as Exhibit A, has been approved by the undersigned.

2. All references to the Official Statement dated October 18, 2011 in the proceedings and closing documents relating to the above-referenced Bonds shall be deemed to refer to the Official Statement dated October 18, 2011, as so amended.

B. This Certificate 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.

IN WITNESS WHEREOF, the undersigned officials have hereunto set their hands this 25th day of October 2011, each certifying only to the matters stated above to be certified by him or her.

Tom Corbett
TOM CORBETT
Governor

ROBERT M. McCORD
State Treasurer

JACK WAGNER
Auditor General

COMMONWEALTH OF PENNSYLVANIA
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TOM CORBETT
Governor

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ROBERT M. McCORD
State Treasurer

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JACK WAGNER
Auditor General

COMMONWEALTH OF PENNSYLVANIA
$811,575,000
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B. This Certificate 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.

IN WITNESS WHEREOF, the undersigned officials have hereunto set their hands this 25th day of October 2011, each certifying only to the matters stated above to be certified by him or her.

TOM CORBETT
Governor

ROBERT M. McCORD
State Treasurer

Jack Wagner

JACK WAGNER
Auditor General

EXHIBIT A

Dated October 25, 2011

Correction to Official Statement Dated October 18, 2011

$811,575,000
Commonwealth of Pennsylvania
General Obligation Bonds

$650,000,000 First Series of 2011
$161,575,000 First Refunding Series of 2011

The Official Statement dated October 18, 2011 relating to the above-captioned Bonds is amended as follows:

Under "LITIGATION-*Sears, et al. v. Corbett*, No. 121 MD 2011 (Pa Commw. 2011) and *Weisblatt, et al. v. Corbett*, No. 157 MD 2011 (Pa Commw. 2011) set forth in the forepart of the Official Statement, A) in the third line of the third paragraph, the word "somehow" is replaced with the word "allegedly", and B) in the second line of the last paragraph of that Section, the word "would" is replaced with the word "could".

All other information contained in the Official Statement remains unchanged.

NEW ISSUE - BOOK-ENTRY ONLY

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

In the opinion of Bond Counsel, under existing statutes and court decisions, interest on the Bonds is excluded from gross income of the owners thereof for purposes of federal income taxation. This opinion of Bond Counsel is subject to continuing compliance by the Commonwealth with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and applicable regulations thereunder. In the further opinion of Bond Counsel, interest on the Bonds is not treated as a preference item for purposes of the alternative minimum tax that may be imposed by the Code on individuals and corporations; such interest, however, may be included in adjusted current earnings in computing alternative minimum tax that may be imposed by the Code on corporations. Bond Counsel is also of the opinion that under the laws of the Commonwealth of Pennsylvania as presently enacted and constructed, the Bonds are exempt from personal property taxes in Pennsylvania and the interest on the Bonds is exempt from the Pennsylvania personal income tax and the Pennsylvania corporate net income tax. For further information concerning federal and state tax matters relating to the Bonds, see "TAX EXEMPTION AND OTHER TAX MATTERS" herein.

$811,575,000
Commonwealth of Pennsylvania
General Obligation Bonds

$650,000,000 First Series of 2011
$161,575,000 First Refunding Series of 2011

Dated: Date of Issuance and Delivery **Due: As shown on inside cover**

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 15 and November 15, commencing May 15, 2012 for the First Series of 2011 Bonds and on July 1 and January 1, commencing January 1, 2012 for the First Refunding Series of 2011 Bonds. Wells Fargo Bank, National Association, Philadelphia, Pennsylvania, is the Loan and Transfer Agent for the Bonds. Principal of and interest and redemption premium, if any, on the Bonds are payable to Cede & Co. See "THE BONDS – Book-Entry Only System."

The First Series Bonds are subject to redemption as set forth herein. See "THE BONDS – Optional Redemption." The First Refunding Series Bonds are not subject to redemption prior to maturity.

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

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

The Bonds are offered when, as and if issued, and are subject to the receipt of the legal opinions of the Attorney General of the Commonwealth of Pennsylvania and of Fox Rothschild LLP, Philadelphia, Pennsylvania, Bond Counsel. The Commonwealth expects that the Bonds will be available in definitive form for delivery through the facilities of DTC on or about October 27, 2011.

Dated: October 18, 2011

$811,575,000
Commonwealth of Pennsylvania
General Obligation Bonds
$650,000,000 First Series of 2011

MATURITY SCHEDULE

(Base CUSIP Number: 70914P)

Due November 15	Principal Amount	Interest Rate	Yield	CUSIP Number
2012	$20,760,000	2.000%	0.210%	QM7
2013	21,285,000	4.000	0.500	QN5
2014	22,045,000	4.000	0.770	QP0
2015	22,945,000	5.000	1.100	QQ8
2016	23,885,000	5.000	1.430	QR6
2017	24,855,000	5.000	1.680	QS4
2018	26,005,000	5.000	1.950	QT2
2019	27,340,000	5.000	2.250	QU9
2020	28,740,000	5.000	2.490	QV7
2021	30,215,000	5.000	2.630	QW5
2022	31,765,000	5.000	2.730	QX3
2023	33,395,000	5.000	2.860	QY1
2024	35,105,000	5.000	2.990	QZ8
2025	36,905,000	5.000	3.100	RA2
2026	38,800,000	5.000	3.180	RB0
2027	40,785,000	4.000	3.570	RC8
2028	42,880,000	4.000	3.670	RD6
2029	45,080,000	5.000	3.470	RE4
2030	47,390,000	5.000	3.540	RF1
2031	49,820,000	4.000	4.000	RG9

$161,575,000 First Refunding Series of 2011

MATURITY SCHEDULE

(Base CUSIP Number: 70914P)

Due July 1	Principal Amount	Interest Rate	Yield	CUSIP Number
2012	$5,000	2.000%	0.300%	RH7
2013	5,000	2.000	0.500	RJ3
2014	5,000	2.000	0.770	RK0
2015	5,000	2.000	1.100	RL8
2016	20,115,000	5.000	1.390	RM6
2017	20,975,000	5.000	1.650	RN4
2018	26,395,000	5.000	1.920	RP9
2019	10,110,000	5.000	2.220	RQ7
2020	3,555,000	5.000	2.470	RR5
2021	45,705,000	5.000	2.590	RS3
2022	34,700,000	5.000	2.720	RT1

The interest rates shown above are the interest rates per annum payable by the Commonwealth on the Bonds of each maturity date as indicated. The yields shown above for each maturity were furnished to the Commonwealth by the underwriter that purchased the Bonds from the Commonwealth on October 18, 2011, and may not reflect the current market prices of the Bonds. All information concerning the re-offering of the Bonds should be obtained from the underwriter and not from the Commonwealth.

THE ISSUING OFFICIALS

Governor .... *TOM CORBETT*
State Treasurer .... *ROBERT M. McCORD*
Auditor General .... *JACK WAGNER*

OFFICE OF THE BUDGET

Secretary .... *CHARLES B.ZOGBY*

Attorney General of the Commonwealth of Pennsylvania:

Linda Kelly

Bond Counsel:

Fox Rothschild LLP
Philadelphia, Pennsylvania

Special Disclosure Counsel:
Obermayer, Rebmann, Maxwell & Hippel LLP
Philadelphia, Pennsylvania

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

Except as otherwise noted, the information herein speaks as of its date and 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................................... $811,575,000 Commonwealth of Pennsylvania, General Obligation Bonds, consisting of $650,000,000 First Series of 2011 (the "First Series Bonds") and $161,575,000 First Refunding Series of 2011 (the "First Refunding Series Bonds" and collectively with the First Series 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
First Series Bonds	
Capital Facilities Projects	$500,000,000
Pennvest Projects..	$150,000,000
First Refunding Series Bonds	
Refunding	$161,575,000

Redemption............................. The First Series Bonds maturing on or after November 15, 2022 are subject to optional redemption in whole or in part (and if in part, in part within one or more maturities) at any time on and after November 15, 2021 at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption

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

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, Philadelphia, Pennsylvania.

Legal Opinions .... Fox Rothschild LLP Bond Counsel.
Linda Kelly, 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+

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Official Statement

$811,575,000
Commonwealth of Pennsylvania
General Obligation Bonds
$650,000,000 First Series of 2011
$161,575,000 First Refunding Series of 2011

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 $811,575,000 aggregate principal amount of the Commonwealth's general obligation bonds consisting of $650,000,000 aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, First Series of 2011 (the "First Series Bonds") and $161,575,000 aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, First Refunding Series of 2011 (the "First Refunding Series Bonds" and collectively with the First Series Bonds, the "Bonds"). The First Series Bonds are being issued to finance various Commonwealth capital projects and voter approved projects. The First Refunding Series Bonds are being issued to refund certain outstanding bond issues of the Commonwealth. See "USE OF PROCEEDS."

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 text of such documents and to any judicial interpretations thereof.

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THE BONDS

Description of the Bonds

The First Series 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 inside cover page hereof, will be payable semi-annually on each May 15 and November 15, commencing May 15, 2012, 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 inside cover page hereof.

The First Refunding Series 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 inside cover page hereof, will be payable semi-annually on each July 1 and January 1, commencing January 1, 2012, 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 inside 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 Philadelphia, 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: (i) the last day (whether or not a business day) of the calendar month next preceding each interest payment date with respect to the First Series Bonds and (ii) the fifteenth day of the calendar month next preceding such interest payment date with respect to the First Refunding Series Bonds (in each case, 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, nor 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 such 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.

Optional Redemption

First Series Bonds

The First Series Bonds maturing in the years 2012 to 2021, inclusive, are not subject to redemption prior to maturity. The First Series Bonds, or portions thereof in integral multiples of $5,000, maturing on and after November 15, 2022, are subject to redemption at the option of the Commonwealth prior to scheduled maturity on and after November 15, 2021, 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.

First Refunding Series Bonds

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

Notice of Redemption

As long as the Bonds are registered pursuant to a book-entry only system, notice of redemption will be given, as required by DTC's (or any successor depository's) procedures, to DTC, its nominee, or successor securities depository, as registered owner of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, the Commonwealth will not be responsible for mailing notices of redemption to anyone other than DTC or its nominee.

Notice of redemption shall be given by the Loan and Transfer Agent via first-class mail not less than 30 days, nor more than 60 days, prior to the date fixed for redemption to the persons in whose names the Bonds to be redeemed are registered at the close of business on the fifth (5^{th}) business day prior to such mailings; provided, however, that any defect in the notice or in the mailing thereof with respect to any registered owner shall not affect the validity of the proceedings for such redemption as to any other registered owner. Deposit of any such notice in the United States mail shall constitute constructive receipt of such notice by the registered owner to whom such notice is sent. Notice having been given as aforesaid and provision having been made for redemption from funds on deposit with the Loan and Transfer Agent, no interest on Bonds, or portions thereof, called for redemption shall accrue after the date fixed for redemption, and the registered holders of the Bonds, or portions thereof, called for redemption shall thereafter have no further right except to receive payment of the redemption price plus accrued interest to the redemption date.

In addition to the notice of redemption to the registered owners of the Bonds, the Loan and Transfer Agent shall cause copies of the original redemption notice to be sent by facsimile transmission, overnight delivery 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 original redemption notice or any defect therein shall not affect the validity of the redemption proceedings.

SECURITY AND SOURCE OF PAYMENT FOR BONDS

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

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

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

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

Authorization

The Bonds are authorized and issued pursuant to and in full compliance with the provisions, restrictions and limitations of Section 7 of Article VIII of the Constitution; the laws of the Commonwealth, including the Capital Facilities Debt Enabling Act, Act No. 1999-1, approved February 9, 1999, as amended by Act No. 2002-130, approved October 28, 2002; Act No. 2003-49, approved December 23, 2003; Act No. 2004-67, approved July 4, 2004; Act No. 2005-87, approved December 22, 2005; Act No. 2008-48, approved July 4, 2008 and Act No. 2010-48, approved July 7, 2010 (the "Capital Facilities Debt Enabling Act"), annual capital budget bills and various bond authorization bills enacted by the General Assembly, including but not limited to, the Capital Budget Act of 2010-2011, Act No. 2010-47, approved July 7, 2010 (the "Capital Budget Act"); the Pennsylvania Infrastructure Investment Authority Act, Act No. 1988-16, approved March 1, 1988 (the "1988 Pennvest Act"); the Small Water Systems Assistance Act, Act No.1992-5, approved March 16, 1992 (the "1992 Pennvest Act"); the Water and Sewer Systems Assistance Act, Act No. 2008-64, approved July 9, 2008 (the "2008 Pennvest Assistance Act"); and the Fiscal Code, as amended in Act No. 2009-50, approved October 9, 2009 (collectively with the 1988 Pennvest Act, the 1992 Pennvest Act and the 2008 Pennvest Assistance Act, the "Pennvest Acts"); constitutional referendum questions approved by the voters of the Commonwealth on April 26, 1988 (the "1988 Referendum"), April 28, 1992 (the "1992 Referendum") and November 4, 2008 (the "2008 Referendum" and collectively with the 1988 Referendum and the 1992 Referendum, the "Pennvest Referenda"); resolutions adopted by the Governor, the State Treasurer and the Auditor General (the "Issuing Officials") on October 12, 2011, and October 18, 2011 (collectively, the "Resolutions"), and project itemization acts and debt authorizing acts previously adopted and in effect as set forth in 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) without approval of the electorate 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)]
September 1, 2011
(In Millions)

Average Annual Tax Revenues Fiscal 2005-2010	$ 33,234.5
Times 1.75	58,160.4
Less: Net Debt Outstanding[(b)]	8,520.6
Debt Issuable Within Limit	$ 49,639.7

(a) As certified by the Auditor General on September 1, 2011 (Appendix A).
(b) After credit for refunded debt.

The capital debt authorizations for the various categories of capital facilities projects are shown in Table 2 on the next page.

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	$ 31,551.3	$ 9,249.5	$ 22,301.8	$ 22,031.8
Furniture and Equipment	1,243.6	426.5	817.1	807.1
Transportation Assistance	10,724.1	3,166.9	7,557.2	7,452.2
Redevelopment Assistance	36,697.3	3,074.8	33,622.5	33,507.5
Community Colleges	35.8	28.0	7.8	7.8
Highway and Highway Bridge	24,186.9	2,542.5	21,644.4	21,644.4
Advance Construction Interstate	450.0	450.0	0	0
Flood Control	556.6	65.8	490.8	490.8
Site Development	150.0	150.0	0	0
Total	$ $105,595.6	$ 19,154.0	$ 86,441.6	$ 85,941.6

(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 2011 capital budget is as shown in Table 3.

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Table 3
Fiscal Year 2011 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	$ 890.000	$ 255.975	$ 634.025	$ 364.025
Furniture and Equipment	25.000	0.000	25.000	15.000
Transportation Assistance	212.000	74.100	137.900	32.900
Redevelopment Assistance	225.000	100.750	124.250	9.250
Flood Control	35.000	0.000	35.000	35.000
Highway	0.000	0.000	0.000	0.000
Bridge	200.000	130.000	70.000	70.000
Total	$ 1,587.000	$ 560.825	$ 1,026.175	$ 526.175

[a] The fiscal year 2011 capital budget debt limits became effective on July 7, 2010, and will remain in force until enactment of the fiscal year 2012 capital budget debt act. As of the date of printing of this Official Statement, the General Assembly of Pennsylvania has not enacted the fiscal year 2012 capital budget debt act.

Upon issuance of $500.0 million aggregate principal amount of the Bonds under the 2010 Capital Budget, $526.2 million principal amount of debt will remain authorized and unissued thereunder.

The Pennvest Acts authorized the issuance of $1,050.0 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, bonds in the principal amount of $692.4 million have been issued pursuant to the authority of the Pennvest Acts. Upon the issuance of $150.0 million of the Bonds pursuant to the Pennvest Acts, $207.6 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) $500,000,000 aggregate principal amount of the First Series Bonds will be issued to provide for the construction, acquisition and major rehabilitation of capital facilities projects as described below under “Capital Facilities”;

(ii) $150,000,000 aggregate principal amount of the First Series Bonds will be issued to provide for the making of grants and loans for the acquisition, construction, improvement, expansion, extension, repair or rehabilitation of all or part of projects for the improvement of water supply and for sewage treatment systems projects as described under “Pennvest”;

(iii) Proceeds of the First Refunding Series Bonds will be used to refund all or a portion of certain maturities of Commonwealth of Pennsylvania General Obligation Bonds (the “Prior Bonds”) as described under “Plan of Refunding.”

The proceeds received from the sale of the Bonds (including net 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 First Series 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 combined $500,000,000 aggregate principal amount of the First Series Bonds issued for capital facilities: (i) $270,000,000 aggregate principal amount of the First Series 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) $115,000,000 aggregate principal amount of the First Series Bonds is to be allocated to the Department of Community and Economic Development to fund redevelopment assistance projects; (iii) $105,000,000 aggregate principal amount of the First Series Bonds is to be allocated to the Department of Transportation to fund transportation assistance projects; and (iv) $10,000,000 aggregate principal amount of the First Series Bonds is to be allocated to the Department of General Services and used to pay for original furniture and equipment projects. Pending application to the above purposes, the proceeds of the First Series 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.

Pennvest

A portion of the proceeds of the First Series Bonds is dedicated to the purposes of the Pennvest Acts and to pay the costs of issuance of the First Series Bonds allocated to such purposes. The proceeds from $104,000,000 aggregate principal amount of the First Series Bonds to be issued for the Pennvest Acts will be deposited into the Water and Sewer Systems Assistance Bond Fund (established pursuant to the Pennvest Acts) and applied to the costs of making grants and loans to local governments and, in certain circumstances, to private companies, 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 First Series 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. The proceeds from $46,000,000 aggregate principal amount of the First Series Bonds to be issued for the Pennvest Acts will be deposited into the Pennvest Bond Fund (established pursuant to the Pennvest Acts) and applied to the costs for loans to local governments and authorities to acquire, repair, construct, reconstruct, rehabilitate, extend and improve water supply, storm water control and sewage treatment systems. Pending application to the above purposes, the proceeds of the First Series Bonds allocated to these purposes will be held by the State Treasurer in the Pennvest Bond Fund and invested in accordance with applicable state and federal laws.

Plan of Refunding

Through the First Refunding Series Bonds, the Commonwealth is refunding the Prior Bonds in order to reduce debt service on the debt represented by the Prior Bonds. The Prior Bonds that are refunded (the “Refunded Bonds”) are as follows:

Principal Amount to be Refunded	Bond Series	Date of Issue	Bonds Maturing on	Date of Redemption
$68,875,000	First Series of 2003	January 16, 2003	January 1, 2022-2023	January 1, 2013
55,875,000	Second Series of 2003	June 10, 2003	July 1, 2016-2019, July 1, 2021	July 1, 2013
5,000,000	First Series of 2004	February 26, 2004	February 1, 2021	February 1, 2014
46,730,000	Second Series of 2004	June 17, 2004	June 1, 2017-2019	June 1, 2014

Refunding in advance of maturity of the Prior Bonds will be accomplished by applying a portion of the proceeds from the sale of the First Refunding Series Bonds to the purchase of certain direct obligations of the U. S. Government to be held in escrow (the "Escrow Obligations"), in an aggregate principal amount which at all times shall be sufficient, together with the interest to accrue thereon, to pay the principal of the Refunded Bonds, the redemption premium, if any, and the interest due and to become due thereon before and on the respective redemption dates as shown above (the "Required Deposit"). Such Escrow Obligations will be deposited with the State Treasurer of the Commonwealth of Pennsylvania, to be applied solely to the payment of the principal and redemption price of and interest on the Refunded Bonds on the redemption date shown above. Initially, the Escrow Obligations are expected to consist of United States Treasury State and Local Government Series obligations. Applicable law and the Resolutions permit the State Treasurer to substitute new Escrow Obligations meeting the requirements of the Required Deposit at the time of any such substitution upon fulfillment of certain conditions, including the receipt of an opinion of Bond Counsel and certain certifications. The refunding of the Prior Bonds will take place as described above only if the First Refunding Series Bonds are issued. The Commonwealth will send out required notices of redemption as provided in the documentation relating to the Prior Bonds and holders of the Prior Bonds should rely solely on such redemption notices.

COMMONWEALTH GOVERNMENT

The Commonwealth is organized into three separate branches of government — executive, legislative and judicial — as defined in the Pennsylvania 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
Tom Corbett	Governor	January 20, 2015
James Cawley	Lieutenant Governor	January 20, 2015
Linda L. Kelly	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 2010, 82 percent of the full-time salaried employees under the Governor's jurisdiction were covered by collective bargaining agreements or memoranda of understanding. Approximately 43 percent of state employees are represented by the American Federation of State, County and Municipal Employees ("AFSCME"). Approximately 58 percent of state employees, represented by the AFSCME, Pennsylvania Social Services Union and other unions, are covered by contracts that took effect July 1, 2011 and expire on June 30, 2015. These contracts provide for a pay freeze in the first year of the contract and general pay increases totaling four percent over the balance of their term. Interest arbitration awards dictate the salary increase to be provided to employees covered by five other unions. One of those awards provided for a three year contract commencing on July 1, 2011 which similarly provides for general pay increases totaling four percent over the term of contract. Two other interest arbitration units are covered by contracts expiring June 30, 2012, the largest of which provides a four percent general pay increase and the other does not provide a general pay increase. The two remaining interest arbitration units have contracts that expired on June 30, 2011 and both remain in negotiations. Table 4 presents the number of approved and filled positions under the Governor's jurisdiction on July 1st of the years 2006 through 2010.

Table 4
Filled Salaried Positions and Employees
Under the Governor's Jurisdiction[(a)]
2006-2010

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
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
2010	76,110	75,878	52,512	69.0

(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 Pennsylvania 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 2012 refers to the fiscal year ending June 30, 2012.) 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 the 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 Budget Stabilization Reserve Fund is a special revenue fund designated to receive a statutorily determined portion of the budgetary basis fiscal year-end surplus of the General Fund, as was its predecessor fund, the Tax Stabilization Reserve 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 Budget Stabilization Reserve 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 all revenues from lottery ticket sales and lottery licenses and fees. Its revenues, after payment of prizes and all other costs, 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) for the fiscal year ended June 30, 2010, 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, 2010, 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. The CAFR of the fiscal year ended June 30, 2011 is expected to be completed during December 2011. 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 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 Moody's Investors Service "AA" rating or the equivalent by Standard & Poor's Financial Services or Fitch's Rating Service; 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.

The State Treasurer has been legislatively authorized to invest Commonwealth moneys in securities under the "prudent investor" standard since June 1999. 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 presently expires on December 31, 2014.

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 Budget Stabilization Reserve 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. Whenever 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 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 Budget Stabilization Reserve Fund from the General 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. The budgets for fiscal years 2009 and 2010 included no transfers into the Budget Stabilization Reserve Fund of any unappropriated surplus as no such surpluses existed at the end of fiscal years 2009 and 2010. The fiscal year 2010 budget included a transfer of the entire $755.0 million balance of the Budget Stabilization Reserve Fund to the General Fund to assist with the enactment of a balanced budget for fiscal year 2010. While the Commonwealth ended fiscal year 2011with a substantial positive ending balance, under provisions of the American Recovery and Reinvestment Act of 2009 ("ARRA"), the Commonwealth was prohibited from depositing any funds into the Budget Stabilization Reserve Fund. In June 2011, the statutory transfer of 25 percent of the Commonwealth's unappropriated surplus balance was suspended for one year. At present, the Commonwealth has a virtually zero balance in the Budget Stabilization Reserve Fund. The enacted budget for fiscal year 2012 projects a preliminary ending balance of $557.8 million and if this amount were to be achieved and the 25% statutory transfer were to be made, 25 percent, or $139.5 million, would be transferred to the Budget Stabilization Reserve Fund following June 30, 2012.

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 June 30, 2011, the Commonwealth's fiscal year 2012 budget was signed into law by the Governor. The fiscal year 2012 budget includes a projected increase in Commonwealth revenues, prior to reserves for tax refunds, of 1.2 percent over fiscal year 2011 receipts. The rate of growth was based upon a projection that the national and state economies will avoid a double-dip recession and that economic growth will remain subdued. The enacted fiscal year 2012 budget reduced a nearly $4.16 billion structural imbalance and reduced total spending by $1.17 billion or 4.1 percent on a year-over-year basis. This reduction in state spending is the largest such reduction in the Commonwealth since at least 1970. See "Fiscal Year 2012 Budget."

Introduction

The most recent Commonwealth audited financial statements are available in the CAFR issued by the Commonwealth for the fiscal year ended June 30, 2010 ("fiscal year 2010"), which was filed with EMMA on January 13, 2011. The application in the CAFR for fiscal year 2002 and subsequent fiscal years of the New Standards affected the comparability of financial information for those 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 2010 continues to report what was reported for governmental funds in the General Purpose Financial Statements included in the CAFRs for prior fiscal years, although fund reclassifications and changed definitions for categories of expenditures for fiscal year 2002 and subsequent fiscal years hampers comparability to data for prior fiscal years.

Copies of CAFRs recently issued by the Commonwealth are available from (i) the Secretary of the Budget, Mr. Charles Zogby, 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 2010 are incorporated herein by reference. This means that (i) the incorporated information is considered part of this Official Statement, and (ii) such information should be reviewed by prospective purchasers of the Bonds as a part of their review of this entire Official Statement.

Government-Wide Financial Data (GAAP Basis)

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

Table 5 presents condensed financial statement information derived from the Commonwealth's government-wide June 30, 2010 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, 2010
(In Billions)

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments	$ 10.7	$ 4.6	$ 15.3
Capital assets (net)	28.6	0.1	28.7
All other assets	7.9	1.6	9.5
Total Assets	$ 47.2	$ 6.3	$ 53.5
Liabilities:			
Accounts payable	$ 5.9	$ 0.9	$ 6.8
All other current liabilities	4.2	4.1	8.3
Total Current Liabilities	10.1	5.0	15.1
Bonds payable	9.8	-	9.8
All other long-term liabilities	3.8	2.5	6.3
Total long-term liabilities	13.6	2.5	16.1
Total liabilities	$ 23.7	$ 7.5	$ 31.2
Net assets:			
Invested in capital assets, net of related debt	$ 24.1	$ 0.1	$ 24.2
Restricted	4.3	0.6	4.9
Unrestricted	(4.9)	(1.9)	(6.8)
Total Net Assets	$ 23.5	$ (1.2)	$ 22.3

Source: Comprehensive Annual Financial Report, fiscal year ended June 30, 2010.

During the fiscal year ended June 30, 2010, the overall financial position (net assets) of the Commonwealth, including both governmental and business-type activities, decreased by $1.5 billion, or 6.30 percent of total beginning net assets of $23.8 billion. For governmental activities, the net increase in net assets was $0.3 billion or 1.29 percent of beginning net assets of $23.2 billion. Total investments, excluding the State Employees' Retirement System, the Public School Employees' Retirement System and all other fiduciary funds, amounted to nearly $14.2 billion and total cash balances were over $1.1 billion at June 30, 2010. Reported investments decreased by $124 million in comparison to prior year balances ($14.3 billion); investments increased by nearly $744 million when the year over year decrease in the Treasury Department securities lending program ($620 million) is included. Cash balances increased by over $490 million, from $633 million reported at June 30, 2009; almost all of this increase ($476 million) is attributable to the reported increase in cash by the Unemployment Compensation Fund. The current fiscal year increase in governmental activities net assets ($0.3 billion) represents a $2.4 billion increase from the prior fiscal year's decrease of $2.1 billion. The current fiscal year increase in Governmental Activities net assets represents an improvement in the Commonwealth's overall financial position when compared to the prior fiscal year ended June 30, 2009. The $1.8 billion decrease in total net assets for business-type activities follows a $2.6 billion decrease during the prior fiscal year. The current year decrease is almost entirely attributable to a net assets decrease of $1.8 billion in the Unemployment Compensation Fund, where the prior fiscal year net assets decrease was over $1.9 billion. During the current fiscal year, unemployment compensation operating revenues increased by nearly $2.6 billion and grant revenues increased by over

$3.0 billion, while expenses increased by $5.5 billion. Among the other business-type activities, year over year increases/decreases in net assets nearly offset each other.

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, 2010 were $18,355.1 million. Liabilities for the same date totaled $12,004.2 million, leaving a fund balance of $6,350.9 million, an increase of $261.4 million from the fund balance at June 30, 2009. On a fund specific basis, the fund balance for the General Fund decreased by $230.4 million, the fund balance for the Motor License Fund increased by $151.7 million, the fund balance for the Tobacco Settlement Fund decreased by $200.2 million and the fund balance for aggregated non-major funds increased by $540.3 million. See "General Fund – Fiscal Year 2010 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, 2010
(In Thousands)

Fund Balances - Governmental Funds		
General Fund	$	284.8
Motor License Fund		1,661.4
Tobacco Settlement Fund		827.2
Nonmajor Funds		3,577.5
Total Fund Balance - Governmental Funds	$	6,350.9
Plus: Capital Assets, including infrastructure		44,499.2
Less: Accumulated depreciation		(15,893.9)
Plus: Deferred revenue		2,386.5
Plus: Additional accrued receivables		352.0
Plus: Net assets of internal service funds		82.2
Plus: Inventories		93.7
Less: Long-term liabilities		(14,323.1)
Total Net Assets - Governmental Activities	$	23,547.5

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 2010 and the enacted budget for fiscal year 2011 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 2006 through fiscal year 2010, total revenues and other sources increased by an average of 3.3 percent annually. Tax revenues during this same period decreased by an annual average of 0.5 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 2006 through 2010 rose at an average annual rate of 3.5 percent. Expenditures for the protection of persons and property during this period increased at an average annual rate of 5.6 percent; public education expenditures during this period increased at an average annual rate of 4.3 percent; health and human services expenditures increased at an average annual rate of 4.4 percent; and capital outlays increased at an average annual rate of 26.2 percent. Commonwealth expenditures for direction and support services (state employees and government administration) decreased at an average annual rate of 15.9 percent during the fiscal years 2006 through 2010. The fund balance at June 30, 2010 totaled $284.8 million, a decrease of $230.4 million from the balance at June 30, 2009. The fiscal year 2010 year-end unreserved-undesignated portion of the fund balance was negative $1,434.7 million, a $1,106.4 million improvement from the $2,541,099 negative amount recorded for fiscal year end 2009 .

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 2006 through 2010.

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

	Fiscal Year Ended June 30				
	2006	**2007**	**2008**	**2009**	**2010**
Fund Balance — Beginning of Period	$ 2,869,109	$ 2,969,549	$ 3,370,866	$ 2,974,101	$ 515,178
Revenues:					
Taxes	$ 24,783,040	$ 25,992,166	$ 26,390,658	$ 24,117,729	$ 24,284,811
Licenses and fees	294,728	366,519	372,854	385,330	607,334
Intergovernmental	14,662,940	15,160,953	15,419,122	17,897,156	21,847,421
Other revenues	2,970,801	1,782,509	1,748,866	1,213,383	1,206,026
Other Financing Sources:					
Operating transfers in	88,930	200,564	119,514	189,329	738,871
Other additions	568	1,582	529	3,638	0
TOTAL REVENUES AND OTHER SOURCES	$ 42,801,007	$ 43,504,293	$ 44,051,543	$ 43,806,565	$ 48,684,463
Expenditures:					
Direction and supportive services	$ 2,062,113	$ 892,397	$ 1,079,972	$ 781,581	$ 1,032,744
Protection of persons and property	3,278,962	3,335,713	3,546,365	3,897,371	4,126,432
Health and human services	23,135,166	23,536,324	24,317,283	25,687,548	27,446,383
Public education	11,666,929	12,372,125	12,994,517	13,340,204	13,813,506
Recreation and cultural enrichment	297,854	353,018	331,454	341,283	291,412
Economic development	956,411	1,204,253	1,122,067	1,115,359	1,025,104
Transportation	443,270	434,737	24,853	48,969	59,121
Capital outlay	27,758	25,275	19,496	34,551	70,341
Debt service	5,064	3,230	34	144	526
Other Uses:					
Operating transfers out	827,040	945,904	1,012,267	1,018,478	1,049,269
TOTAL EXPENDITURES AND OTHER USES	$ 42,700,567	$ 43,102,976	$ 44,448,308	$ 46,265,488	$ 48,914,838
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES	100,440	401,317	(396,765)	(2,458,923)	(230,375)
Fund Balance — End of Period	$ 2,969,549	$ 3,370,866	$ 2,974,101	$ 515,178	$ 284,803
Components of Fund Balance					
Reserved for encumbrances	$ 709,115	$ 570,027	$ 568,678	$ 785,864	$ 806,181
Reserved for advances and other	751,062	1,508,214	2,016,633	2,270,413	913,303
Unreserved — designated	719,414	923,966	379,169	-	-
Unreserved — undesignated	789,958	368,659	9,621	(2,541,099)	(1,434,681)
TOTAL FUND BALANCE	$ 2,969,549	$ 3,370,866	$ 2,974,101	$ 515,178	$ 284,803

Source: Compiled from Office of the Budget, Comprehensive Annual Financial Report for fiscal years ended June 30, 2006 through 2010.

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

	Actual Fiscal Year 2010	Actual Fiscal Year 2011	Budget Fiscal Year 2012
Sources:			
Cash revenues	$ 27,648.2	$ 27,497.2	$ 27,840.8
Tax refunds	(1,125.0)	(1,150.0)	(1,270.0)
Additional resources available	0.0	0.0	0.0
Public Health and Human Services Assessments[a]	645.4	636.6	616.9
TOTAL SOURCES	$ 27,168.6	$ 26,983.8	$ 27,187.7
Uses:			
General fund appropriations	$ 27,835.9	$ 28,321.3	$ 27,148.6
Expenditures from additional resources	0.0	0.0	0.0
Lapses and other reductions[b]	(3,063.0)	(3,341.1)	(62.9)
Public Health and Human Services Assessments[a]	645.4	636.6	616.9
TOTAL USES	$ 25,418.3	$ 25,616.8	$ 27,702.6
OPERATING BALANCE	$ 1,750.3	$ 1,367.0	$ (514.9)
BEGINNING UNAPPROPRIATED BALANCE	(2,799.5)	(294.2)	1,072.8
ADJUSTMENT TO UNAPPROPRIATED BALANCE	…..	…..	…..
TRANSFER (TO)/FROM BUDGET STABILIZATION RESERVE FUND[c]	755.0	0.0	(139.5)
ENDING UNAPPROPRIATED BALANCE	$ (294.2)	$ 1,072.8	$ 418.4

Totals may not add due to rounding.

(a) Only includes funds replacing Commonwealth funds. Fiscal year 2010 includes $237.8 million from a nursing home tax used to augment appropriated funds for long-term care. For fiscal year 2011, this number is $144.5 million and for fiscal year 2012 it is $192.7 million. Fiscal year 2010 included $407.6 million, fiscal year 2011 included $371.2 million and fiscal year 2012 includes an estimated $315.2 million from a tax imposed on managed care organizations. Additionally, fiscal year 2011 included $120.9 million and fiscal year 2012 includes an estimated $109 million from a Statewide Quality Care Assessment.

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

(c) Provisions of ARRA prohibit the Commonwealth from depositing any funds in the Budget Stabilization Reserve Fund during fiscal year 2011.

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 fiscal year 2008. 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 increased 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 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 a 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 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 ARRA funds. 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 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 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 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 fiscal year 2009.

Total General Fund expenditures increased by 4.17 percent ($1.8 billion) during the fiscal year ended June 30, 2009. 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), and 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 fiscal year 2009 ($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 in fiscal year 2009 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 fiscal year 2009, 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 fiscal year 2009, 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 fiscal year 2009, 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 a result of Commonwealth financial operations in fiscal year 2009, 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 fiscal year 2009. 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, restricted out-of-state travel, 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 a 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. 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, estimated to total $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 Financial Results

GAAP Basis. At June 30, 2010, the General Fund reported a fund balance of $284.8 million, a decrease of $230.4 million from the reported $515.2 million fund balance at June 30, 2009. On a net basis, total assets increased by $520.0 million to $9,837.0 million. Liabilities increased by $750 million to $9,552 million largely because of a captioning change in liability type for unclaimed property (escheats) liability from accounts payable amounting to $553 million, and higher amounts due to political subdivisions ($319 million) for a variety of agencies, including the Department of Public Welfare ($131 million), the Department of Education ($72 million), Executive Offices ($43 million), and the Department of Health ($38 million). The change in fund balance for the General Fund of -$230 million for fiscal year 2010 compares with a change in the fund balance of -$2,459 million for fiscal year 2009.

General Fund tax revenues increased overall by over $167 million (1 percent) during the fiscal year ended June 30, 2010. This net increase is attributable to two tax types: ‘other’ and cigarette. ‘Other’ taxes increased by $551 million, based on a new Gross Receipts Tax (amounting to approximately $533 million) imposed on Managed Care Organizations that are parties to Medicaid managed care contracts with the Department of Public Welfare. This revenue will allow the Commonwealth to draw down additional federal Medicaid matching funds for the Medical Assistance managed care program. Also, Cigarette taxes increased by $87 million as the result of increases to the cigarette tax by 25 cents per pack and an expansion of the tax to include little cigars. However, these two increases were offset by decreases in both Personal income taxes ($227 million) and Corporation taxes ($219 million). Decreases in these tax types were directly attributable to declines in economic activity during the current fiscal year.

Intergovernmental revenues increased by $3.9 billion, net, resulting primarily from Federal participation in significantly higher expenditures for Medical Assistance and other types of health and human services expenditures. Over $2.6 billion of the increase is attributable to higher Federal revenues from the Federal American Recovery and Reinvestment Act of 2009 (ARRA). Combined licenses/fees/investment and other revenues increased by $422 million primarily because of 1) first-year revenues for Table Game Authorization Fees, amounting to $165 million, and 2) an increase in investment income of $150 million, and 3) increases of 'other' revenues of nearly $46 million. Charges for sales and services revenues decreased by $207 million primarily because of a $221 million decrease in certain Department of Public Welfare's revenues related to Medicaid managed care, which were replaced by new tax revenues ($533 million, above).

Total General Fund expenditures increased by 6 percent during the fiscal year ended June 30, 2010, by over $2.6 billion. Reported expenditures for health and human services expenditures increased by $1,758 million, caused by a higher aggregate need for medical assistance, and income and/or cash grant assistance. Expenditures for Food Stamps, alone, increased by $555 million. Public education expenditures increased by $474 million, net, due primarily to Federally-funded (ARRA) subsidies/grants for basic education ($515 million), offset by a decrease in state-funded basic education ($358 million), net increases in Federally-funded (including ARRA) grants in assorted other programs of $361 million, offset by net decreases in assorted state-funded programs of $144 million, higher accrued liabilities ($80 million), a special education increase ($12 million), a pupil transportation increase ($6 million), and a public school employee social security increase (employer share)($23 million); also, a decrease in public school employee retirement (employer share)($44 million). Higher education subsidies expenditures were nearly flat, year over year. Protection of persons and property expenditures increased by $229 million primarily because of higher personnel costs for the Department of Corrections ($157 million) and higher overall expenditures for the Department of Environmental Protection of over $54 million. Direction and supportive services expenditures increased by $251 million because of higher year over year active employee healthcare expenditure accruals ($131 million), a lower amount of interfund revenue/expenditure eliminations ($90 million), higher compensated absences expenditures ($60 million), higher expenditures for the Treasury unclaimed property program ($46 million), offset by lower expenditures for several agencies financed by the General Fund ($76 million).

Reported Transfers to the General Fund increased by $550 million primarily because of Act 50 of 2009 (over $167 million from the Tobacco Settlement Fund, $60 million from the Oil and Gas Lease Fund and over $144 million from the Medical Care Availability and Reduction of Error Fund) and the General Fund Appropriation Act 10-A (General Fund budget) ($143 million from the Oil and Gas Lease Fund and over $19 million from the Keystone Recreation, Park and Conservation Fund).

Reported Transfers from the General Fund increased by $31 million, net of decreases, primarily because of 1) a $26 million increase in transfers to debt service funds, and 2) a new transfer to the Motor License Fund ($5 million).

Budgetary Basis. The continuing effects of the national economic recession again negatively impacted the Commonwealth's economy during fiscal year 2010. While avoiding the contraction in the national economy from the prior fiscal year, the Commonwealth experienced only minimal economic growth in fiscal year 2010. High levels of unemployment and turbulent financial markets negatively impacted the Commonwealth's revenues and receipts. General Fund revenues of the Commonwealth were below the certified estimate by $1,176.5 million or 4.1 percent during fiscal year 2010. Final Commonwealth General Fund revenues for the fiscal year totaled $27,648.2 million. Total fiscal year 2010 revenues, net of reserves for tax refunds and including public health and human services assessments, totaled $27,168.6 million. Total expenditures, net of appropriation lapses and including public health and human services assessments and expenditures from additional sources (federal ARRA funding), were $25,418.3 million, resulting in a preliminary operating balance for fiscal year 2010 of $1,750.3 million. However, after accounting for a negative fiscal year 2010 beginning balance of $2,799.5 million and an infusion of $755 million from the Budget Stabilization Reserve Fund, the Commonwealth ended fiscal year 2010 with an unappropriated surplus balance (i.e., a deficit balance) of -$294.2 million.

Revenues available to the Commonwealth, net of reserves for tax refunds and transfers from the Budget Stabilization Reserve Fund but including public health and human service assessments, increased $2,450.1 million or nearly 10 percent during fiscal year 2010. Fiscal year 2010 net revenues (all sources but excluding transfers from the Budget Stabilization Reserve Fund) totaled $27,201.5 million, up from $24,750.6 million during fiscal year 2009. Public health and human service assessments increased $232.5 million during fiscal year 2010. General Fund revenues increased $2,118.4 million or 8.3 percent during fiscal year 2010 when measured on a year-over-year basis. Corporate tax receipts were $510.2 million, or 10.0 percent below estimate for fiscal year 2010. Year-over-year growth in corporate taxes was -5.3 percent during fiscal year 2010 as corporate net income tax collections declined 9.5 percent and capital stock and franchise tax receipts declined 3.4 percent while collections from the gross receipts tax declined 6.5 percent on a year-over-year basis. Personal income taxes were $308.3 million below the estimate, a shortfall of 3.0 percent versus the estimate, while year-over-year growth in personal income tax receipts was -2.3 percent. Personal income tax collections attributable to withholding increased slightly (0.7 percent) during fiscal year 2010 while tax collections from the non-withholding portion of the personal income tax declined 11.8 percent on a year-over-year basis. Sales and use taxes receipts were also below the fiscal year 2010 estimate by $362.1 million, a difference of -4.3 percent from the fiscal year estimate. Sales tax collections declined 1.3 percent during fiscal year 2010 as motor vehicle sales tax collections grew 3.8 percent but non-motor vehicle sales tax receipts declined 2.0 percent during fiscal year 2010. Stabilization in the Pennsylvania housing market led to realty transfer tax revenues growing slightly by 0.5 percent during fiscal year 2010 after dropping over 30 percent during fiscal year 2009. Non-tax revenues of the Commonwealth were 1.8 percent below the fiscal year 2010 estimate, led by realized losses on the investment of Commonwealth funds. However, non-tax revenues of the Commonwealth grew from $235.2 million in fiscal year 2009 to $2,738.2 million during fiscal year 2010, an increase of 1,064 percent. This increase was attributable to the transfer of various fund balances such as the Budget Stabilization Reserve Fund and other such balances to the General Fund. Reserves for tax refunds in fiscal year 2010 were $1,125 million, a decrease of 8.2 percent from the fiscal year 2009 reserves.

The fiscal year 2010 budget was enacted incrementally over the first half of fiscal year 2010. On August 5, 2009 the Governor signed into law, Act 1A, which provided $11 billion of appropriations towards the operation of critical public health and safety services and to fund general government operations for the Commonwealth. In signing Act 1A, the Governor also line-item vetoed nearly $13 billion of appropriations for fiscal year 2010. The resulting legislation was commonly referred to as a “bridge budget,” which provided 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 bond 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 included 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, provided 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 provided 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 were approved by the General Assembly and signed into law by the Governor on December 17, 2009 and, net of approximately $8 million in line-item vetoes, totaled $690.2 million in fiscal year 2010.

On January 8, 2010, the Governor signed into law a bill expanding gaming in the Commonwealth. Act 1 of 2010 ("Act 1") authorized certain table games at Pennsylvania casinos and was estimated to generate an additional $256 million in General Fund revenues during fiscal year 2010, 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 was estimated to be between $80 and $90 million.

Given the condition of the national economy, the fiscal year 2010 base revenue estimate was premised on the assumption that the Commonwealth would experience zero growth (0.0 percent) during fiscal year 2010. The fiscal year 2010 budget provided an estimated $808.2 million in recurring revenues from various sources. Included in the recurring revenues were 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 re-direction 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 budget for fiscal year 2010 also included $2,356.0 million in non-recurring revenues; $755 million from the Budget Stabilization Fund; $708 million from the Health Care Provider Retention Account; $100 million from the MCare Fund; $159 million from 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 utilized $3,063.0 million in available federal fiscal relief funds and lapses to offset state appropriations.

Education funding was expanded in the fiscal year 2010 budget by an additional $300 million provided through the Basic Education subsidy.

The fiscal year 2010 budget represented a 1.8 percent ($523.9 million) decrease over the fiscal year 2009 budget. The fiscal year 2010 budget reduced or eliminated funding for programs in nearly every Commonwealth agency. The budget reduced funding for over 300 programs and eliminated funding for over 100 programs, lowering General Fund spending by nearly $1,900.0 million. Nearly 3,000 Commonwealth positions were eliminated in fiscal year 2010, bringing the total reduction in the Commonwealth's workforce to 4,767 positions since 2003.

Fiscal Year 2011 Financial Results

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

Budgetary Basis. While unemployment rates remained at elevated levels within Pennsylvania, the Commonwealth's revenues and receipts benefitted from the moderate uptick in the national economy experienced during a portion of fiscal year 2011. General Fund revenues of the Commonwealth were above the certified estimate by $785.5 million or 2.9 percent during fiscal year 2011, the first time since fiscal year 2008. Final Commonwealth General Fund revenues for the fiscal year totaled $27,497.2 million. Total fiscal year 2011 revenues, net of reserves for tax refunds and including public health and human services assessments, totaled $26,983.8 million. Total expenditures, net of appropriation lapses and including public health and human services assessments and expenditures from additional sources (federal ARRA funding), were $25,616.8 million, resulting in a preliminary operating balance for fiscal year 2011 of $1,367.0 million. However, after accounting for a negative fiscal year 2010 beginning balance of $294.2 million, the Commonwealth ended fiscal year 2011 with an unappropriated surplus balance of $1,072.8 million, which was the largest such unappropriated ending balance since at least 1949, the earliest period for which such records are available. Additionally, the $1,072.8 million unappropriated ending balance during fiscal year 2011 was the largest such balance as a percent of the Commonwealth budget since at least fiscal year 1975.

Revenues available to the Commonwealth, net of reserves for tax refunds and transfers from the Budget Stabilization Reserve Fund but including public health and human service assessments, decreased $184.8 million or 0.7

percent during fiscal year 2011. Public health and human service assessments decreased $8.8 million during fiscal year 2011 to $636.6 million (See "Table 8").

General Fund revenues decreased $150.9 million or 0.5 percent during fiscal year 2011 when measured on a year-over-year basis as compared to fiscal year 2010. However, this decline is due primarily to the use of the Budget Stabilization Reserve Fund and other such one-time balance transfers utilized during the 2010 fiscal year. Tax revenue collections grew $1,550.7 million or 6.2 percent on a year-over-year basis from fiscal year 2010 to fiscal year 2011 while non-tax revenue collections declined $1,701.6 million or 62.1 percent. Corporate tax receipts were $398.6 million above fiscal year 2010 levels. Year-over-year growth in corporate taxes was 15.6 percent during fiscal year 2011 as corporate net income tax collections increase 19.0 percent and capital stock and franchise tax receipts increased 7.6 percent while collections from the gross receipts tax declined 4.8 percent on a year-over-year basis. Personal income taxes were $467.0 million above fiscal year 2010 actual collection, year-over-year growth in personal income tax receipts was 4.7 percent. Personal income tax collections attributable to withholding increased by 2.1 percent during fiscal year 2011 and tax collections from the non-withholding portion of the personal income tax increased 14.4 percent on a year-over-year basis. Sales and use taxes receipts were $561.0 million greater during fiscal year 2011 than during the prior fiscal year, a growth rate of 7.0 percent. Sales tax collections increased during fiscal year 2011 as motor vehicle sales tax collections grew 6.7 percent and non-motor vehicle sales tax receipts increased 7.0 percent during fiscal year 2011. Cigarette tax collections grew 10.2 percent during fiscal year 2011 and inheritance tax collections grew 6.8 percent. The continued weakness in the national housing market led to realty transfer tax revenues declining 5.7 percent during fiscal year 2011. Non-tax revenues of the Commonwealth decline 62.1 percent during fiscal year 2011, due primarily to the utilization of one-time revenues during the prior fiscal year. Reserves for tax refunds in fiscal year 2011 were $1,150 million, an increase of 2.2 percent from fiscal year 2010 reserve levels.

Fiscal year 2011 appropriations from Commonwealth revenues, including supplemental appropriations and federal ARRA funding and net of appropriation lapses, totaled $28,321.3 million an increase of $485.4 million or 1.7 percent from fiscal year 2010 expenditures. Fiscal year 2011 ARRA funding and appropriation lapses increased to $3,341.1 million from $3,063.0 million in fiscal year 2010, an increase of 9.1 percent. A total of $275.2 million in appropriations were lapsed in fiscal year 2011, and the fiscal year 2011 budget contained a slightly reduced level of public health and human services assessments, $636.6 million, which were utilized to cover a portion of medical assistance and long-term care costs. These assessments replaced $636.6 million of General Fund medical assistance and long-term care costs in fiscal year 2011, compared to $645.4 million in fiscal year 2010, a decrease of 1.4 percent.

Commonwealth General Fund appropriations for fiscal year 2011 totaled $28,019.8 million, an increase of $379.3 million or 1.4 percent from fiscal year 2010 levels. A total of $3,055.0 million in operating appropriations were offset with federal funds, mainly ARRA, during fiscal year 2010. The Basic Education Funding subsidy to local school districts increased by $250.0 million or 4.5 percent. Funding for higher education programs was reduced by $19.1 million, or 1.0 percent. Commonwealth contributions to the Public School Employees Retirement System decreased $55 million or 16.1 percent from fiscal year 2010 levels. Spending for the Department of Corrections increased $82.0 million or 4.6 percent during fiscal year 2011 and medical assistance and human services spending increased by $81.4 million or 0.8 percent during fiscal year 2010.

The ending unappropriated balance was $1,072.8 million for fiscal year 2011. Under provisions of ARRA, the Commonwealth was prohibited from depositing any funds into the Budget Stabilization Reserve Fund. In June 2011, the statutory transfer of 25 percent of the Commonwealth's unappropriated surplus balance was suspended for one year.

Fiscal Year 2012 Budget

The enacted fiscal year 2012 budget provides appropriations and executive authorizations, net of lapses and other reductions, totaling $27,702.6 million of Commonwealth funds against estimated revenues, net of tax refunds and including public health and human services assessments, of $27,187.7 million. The $514.9 million negative difference between estimated revenues and budgeted appropriations is to be mitigated by a partial draw down of the $1,072.8 million ending balance from fiscal year 2011. General Fund appropriations, from all revenue sources are estimated to decline $1,172.7 million or 4.1 percent on a year-over-year basis during fiscal year 2012. This reduction in state spending is the largest such reduction in the Commonwealth since at least 1970 and the fiscal year 2012 enacted budget resets spending levels to those seen in fiscal year 2009. The enacted fiscal year 2012 budget also accommodates the expiration of over $3 billion in federal fiscal relief that was utilized to balance the fiscal year 2011 budget. The fiscal year 2012 ending unappropriated balance is estimated to be $418.4 million.

The fiscal year 2012 revenue estimate is based upon an economic assumption that economic growth will total 3.0 percent annual growth through June 2012. Total revenues of the Commonwealth, prior to reserves for refunds are expected to increase $343.7 million or 1.2 percent from fiscal year 2011 levels. This increase is minimal due mainly to a reduction in one-time revenue sources utilized to balance the fiscal year 2011 budget. Tax revenues of the Commonwealth are estimated to increase 3.3 percent from fiscal year 2011 levels. Fiscal year 2012 receipts from corporate tax receipts are projected to increase 1.5 percent, after adjusting for a restart of the scheduled reduction in the capital stock and franchise tax rate reduction. Personal income tax receipts in fiscal year 2012 are expected to grow 5.4 percent on a year-over-year basis. Sales and use tax receipts are projected to increase 2.3 percent during fiscal year 2012. Non-tax revenues are projected to decline 51 percent, primarily from the reduction in one-time transfers utilized to balance the fiscal year 2011 budget.

Commonwealth General Fund appropriations for fiscal year 2012 total $27,148.6 million, a decrease of $1,172.7 million from fiscal year 2011 levels. Operating appropriations that were offset with federal funds, including ARRA, during fiscal year 2011 were eliminated or replaced with Commonwealth funds during fiscal year 2012. Administrative spending during fiscal year 2012 is to be 4.0 percent lower than it was during the prior fiscal year and an estimated 1,000 positions are to be eliminated. The enacted fiscal year 2012 budget eliminates 66 appropriation line items, cutting $822 million in annual expenditures. It also reduces more that 226 appropriations and consolidates an additional 52 appropriations to streamline state government. The Basic Education Funding subsidy to local school districts is reduced by $421.5 million or 7.3 percent. This reduction returns the subsidy to levels last seen in fiscal year 2009, the year prior to the availability of federal fiscal relief. Funding for higher education programs is reduced by $268.8 million, or 13.7 percent. Commonwealth contributions to the Public School Employees Retirement System are increased $312.6 million or 109 percent from fiscal year 2011 levels. Spending for the Department of Corrections is held to a zero percent growth during fiscal year 2012 and medical assistance and human services spending is expected to be reduced by $404 million.

The achievement of budgeted results may be adversely affected by a number of trends or events, including developments in the national and state economy. Deficits in the enacted budget can result from failures to timely receive projected revenues, inability to control or reduce expenses as projected, incurrence of unforeseen expenses, imposition of unforeseen obligations, whether of a legislative or litigation nature or resulting from a natural disaster, and a multitude of other causes. Cost cutting and revenue producing measures are less efficacious if imposed later in a fiscal year because of the shorter time period over which they will operate.

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, 2010, was $1,661.4 million, a $151.7 million (10.0 percent) increase from the June 30, 2009 fund balance. Over the five fiscal years 2006 through 2010, revenues and other sources have averaged an annual 6.3 percent increase. Expenditures and other uses during the same period have averaged a 7.3 percent annual increase.

Overall, total revenues increased by $800 million during the fiscal year ended June 30, 2010; this represents a 16 percent increase over the prior fiscal year. The most significant factor was a $447 million increase in intergovernmental revenues from the Federal American Recovery and Reinvestment Act of 2009 (ARRA) and another factor was restricted receipts received for capital expenditures that were reclassified to intergovernmental revenues, amounting to $184.4 million. Offsetting these two large increases, due to decreases in tax collections in past fiscal years, there was a reduction in highway maintenance and construction during the current fiscal year resulting in a decrease in non-ARRA Federal revenues of $47.3 million. The increase in other revenues was caused by a $165.4 million increase in investment income due to higher securities valuation, higher investment earnings. This increase was offset with an $8.2 million decrease in charges for sales and services from a one-time collection received in the prior fiscal year for a settlement received from a third-party insurance carrier. Licenses and fees revenues decreased by $24 million due primarily to the redistribution of vehicle code fines to a variety of other governmental funds for May and June of 2010.

Overall, total expenditures increased by $555 million during the fiscal year ended June 30, 2010; this represents an 11 percent increase over the prior fiscal year. The combination of Capital Outlay ($285 million increase) and Transportation ($268 million increase) expenditures accounts for nearly all of the year over year increase in expenditures. The most significant change was due to ARRA, under which $296.4 million was expended on qualifying projects, reimbursable by ARRA.

Net transfers to other Funds increased by $7 million due primarily to the increase in Capital Bridge Debt Service payments of $10.6 million for the additional bridge bond issuances during the current fiscal year under the Capital Budget Act of 2008- 2009. This increase in transfers out was netted with a one-time transfer in of $5.1 million for interest earned on a $650 million loan that had been made to the General Fund and repaid during the current fiscal year. The $261 million increase in cash and investments ($371 million increase), net of securities lending program assets ($110 million decrease), is a result of several factors. Total revenues exceeded total expenditures (before transfers) during the current fiscal year by $198 million; securities valuation significantly improved since June 30, 2009, by $89 million; and funds received from the Pennsylvania Turnpike Commission under Act 44 of 2007 have been accumulated in excess of spending by $146.8 million. Other assets increased by $116 million because receivables for ARRA and other federally-reimbursable projects increased. Accounts payable increased by $140 million, primarily as a result of increases in expenditures for ARRA qualifying projects ($88 million). The $197 million increase in other liabilities is mainly a result of $176 million being returned to the Federal government for Federal revenues received in prior fiscal years on projects that did not result in construction and subsequently converted to state-only projects. An additional $18 million in other liabilities is a combination of the redistribution of vehicle code fines to a variety of other governmental funds netted with a reduction in the vehicle sales tax collections due to the General Fund (Department of Revenue), both resulting from procedural changes.

Table 9, on the next page, sets forth a condensed summary of revenues and expenditures (presented on a GAAP basis) for the Motor License Fund for the fiscal years 2006 through 2010.

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

	Fiscal Year Ended June 30				
	2006	**2007**	**2008**	**2009**	**2010**
Fund Balance — Beginning of Period	$ 1,276,525	$ 1,549,078	$ 1,418,781	$ 1,566,520	$ 1,509,732
Restatements	-	-	-	30,059	-
Fund Balance — Beginning of Period, as Restated	$ 1,276,525	$ 1,549,078	$ 1,418,781	$ 1,596,579	$ 1,509,732
Revenues:					
Taxes	$ 2,033,227	$ 2,072,442	$ 2,024,045	$ 1,975,678	$ 2,045,505
Licenses and fees	899,690	878,679	877,141	874,711	851,164
Intergovernmental	1,413,434	1,448,007	1,913,422	2,062,260	2,649,613
Other revenues	185,611	250,031	114,549	75,421	240,767
Other Financing Sources:					
Operating transfers in	-	-	11,204	-	5,164
Other additions	-	154	-	-	-
TOTAL REVENUES AND OTHER SOURCES	$ 4,531,962	$ 4,649,313	$ 4,940,361	$ 4,988,070	$ 5,792,213
Expenditures:					
Direction and supportive services	$ 51,738	$ 66,572	$ 66,993	$ 71,167	$ 61,906
Protection of persons and property	553,679	667,318	647,014	638,844	647,735
Public education	1,024	991	867	806	811
Recreation and cultural enrichment	-	408	1,337	1,390	3,263
Transportation	1,679,517	2,326,944	2,198,115	2,105,489	2,372,220
Capital outlay	1,924,821	1,672,026	1,793,459	2,217,691	2,502,788
Other Uses:					
Operating transfers out	48,630	45,351	84,837	39,530	51,801
TOTAL EXPENDITURES AND OTHER USES	$ 4,259,409	$ 4,779,610	$ 4,792,622	$ 5,074,917	$ 5,640,524
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES	272,553	(130,297)	147,739	(86,847)	151,689
Fund Balance — End of Period	$ 1,549,078	$ 1,418,781	$ 1,566,520	$ 1,509,732	$ 1,661,421
Components of Fund Balance					
Reserved for encumbrances	$ 464,511	$ 596,304	$ 670,338	$ 652,352	$ 768,916
Reserved for advances and other	1,635	2,014	5,242	10,225	116,545
Unreserved - designated - highways	203,118	235,730	689,288	700,018	768,710
Unreserved - undesignated	879,814	584,733	201,652	147,137	7,250
TOTAL FUND BALANCE	$ 1,549,078	$ 1,418,781	$ 1,566,520	$ 1,509,732	$ 1,661,421

Source: Compiled from Office of the Budget, Comprehensive Annual Financial Report for fiscal years ended June 30, 2006 through 2010.

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 was planned to be provided by up to $5 billion in bonds to be issued by the Pennsylvania Turnpike Commission to be repaid 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 submitted supplemental material to the federal government; however, the Commonwealth's application for tolling of Interstate 80 was again rejected. The Commonwealth is currently evaluating options available to it. Lease payments from the Turnpike Commission have declined to $450 million annually commencing with fiscal year 2011. See "COMMONWEALTH REVENUES AND EXPENDITURES-Transportation."

Act 44 shifted mass transit funding 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 and the Lottery Fund, and, subject to Federal approval, was intended to receive 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 (7.2 percent) over fiscal year 2007 expenditures. The increased expenditure levels reflected 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

Budgetary Basis. Commonwealth revenues to the Motor License Fund totaled $2,556.7 million, a decrease of 4.2 percent over 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 losses associated with Motor License Fund investments. 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 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 Financial Results

Budgetary Basis. Commonwealth revenues to the Motor License Fund totaled $2,641.1 million, an increase of $84.3 million (3.3 percent) over fiscal year 2009 revenues. Receipts from liquid fuels taxes increased by 1.8 percent while license and fee revenue decreased by 3.0 percent. Other revenue receipts increased by 17.6 percent during fiscal year 2010, due primarily to the realization of gains associated with Motor License Fund investments. Fiscal year 2010 Motor License Fund appropriations and executive authorizations totaled $2,627.7 million, a decrease of 3.6 percent from fiscal year 2009. The slightly decreased expenditure levels during fiscal year 2010 were the net result 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 2010 appropriation lapses). The Motor License Fund concluded fiscal year 2010 with an unappropriated surplus of $165.1 million, a net increase of 186 percent.

Fiscal Year 2011Financial 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 $2,521.4 million, a decrease of $119.7 million (4.5 percent) over fiscal year 2010 revenues. Receipts from liquid fuels taxes increased by 2.9 percent while license and fee revenue increased by 4.0 percent. Other revenue receipts decreased by 31.4 percent during fiscal year 2011, due primarily to a decrease in the amount of revenue transferred to the Motor License Fund by the Pennsylvania Turnpike Commission pursuant to Act 44. Fiscal year 2011 Motor License Fund appropriations and executive authorizations totaled $2,402.9 million, a decrease of 8.6 percent from fiscal year 2010. The decreased expenditure levels during fiscal year 2011 were the net result of decreased funding made available from Act 44. The Motor License Fund concluded fiscal year 2011 with an unappropriated surplus of $318.0 million, a net increase of 93 percent.

Fiscal Year 2012 Budget

The fiscal year 2012 adopted budget includes an estimated $2,416.4 million from Commonwealth Motor License Fund revenues and Motor License Fund appropriations totaling $2,580.4 million. The enacted amount of appropriations represents an increase of $177.5 million or 7.4 percent from the appropriated level for fiscal year 2011. The $164 million difference between the estimated fiscal year 2012 appropriations and revenues of the Motor License Fund is expected to be supported by the draw down of a portion of the fiscal year 2011 $318.0 million beginning balance. The projected fiscal year end 2012 unappropriated balance is estimated to be $154 million, a decline of 51.6 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.

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 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 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, 2010, were -$166.2 million, a $21.7 million decrease from the June 30, 2009 fund balance, which represents a 15 percent decrease. Over the five fiscal years 2006 through

2010, revenues have averaged an annual 1.5 percent increase while expenditures and other uses during the same period have averaged a 2.2 percent annual increase.

During the fiscal year ended June 30, 2010 reported transfers from other Funds increased by $128 million. Act 1 of Special Session 1 of 2006 provided for $176.7 million to be transferred from the Gaming Fund during the current fiscal year to finance the expansion of the Property Tax Rent Rebate (PTRR) program. Lottery prize payments reported in the cost of sales represent 62 percent of sales. The remaining net proceeds are used for programs to support older Pennsylvanians. The current fiscal year transfers to other Funds decreased by $50 million. This was primarily due to a $54.5 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 $86.6 million was transferred to PTTF, which was an increase of $4.5 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 2006 through 2010.

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

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

	2006	2007	2008	2009	2010
Net Assets -					
Beginning of Period	$ 291,416	$ 357,696	$ 348,278	$ 135,824	$ (144,537)
Revenues:					
Lottery revenues	3,046,854	3,076,572	3,100,596	3,087,962	3,051,640
Investment income	25,360	39,957	1,461	(17,677)	2,894
Other revenues	78,331	78,576	101,316	110,836	113,043
Other Financing Sources:					
Operating transfers in	-	100,000	100,186	48,500	176,700
TOTAL REVENUES AND OTHER SOURCES	$ 3,150,545	$ 3,295,105	$ 3,303,559	$ 3,229,621	$ 3,344,277
Expenditures:					
Operating expenses	$ 2,704,265	$ 3,100,518	$ 3,157,593	$ 3,173,322	$ 3,079,378
Other expenses	-	5	-	-	3
Other Uses:					
Operating transfers out	380,000	204,000	358,420	336,660	286,597
TOTAL EXPENDITURES AND OTHER USES	$ 3,084,265	$ 3,304,523	$ 3,516,013	$ 3,509,982	$ 3,365,978
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES	66,280	(9,418)	(212,454)	(280,361)	(21,701)
Net Assets - End of Period	$ 357,696	$ 348,278	$ 135,824	$ (144,537)	$ (166,238)
Components of Net Assets					
Invested in capital assets, net of debt	$ 31,771	$ 7,442	$ 11,473	$ 12,264	$ 8,576
Restricted for elderly programs	325,925	340,836	124,351	-	-
Deficit	-	-	-	(156,801)	(174,814)
TOTAL NET ASSETS	$ 357,696	$ 348,278	$ 135,824	$ (144,537)	$ (166,238)

Source: Compiled from Office of the Budget, Comprehensive Annual Financial Report for fiscal years ended June 30, 2006 through 2010.

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. Appropriations and executive authorizations totaled $1,685.4 million, 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 senior citizens. 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 Financial Results

Budgetary Basis. Fiscal year 2010 net revenues from lottery sources, including instant ticket sales and the State's participation in the multi-state Powerball game, increased by 7.0 percent. Total funds available, including prior year lapses and net revenues received by the Lottery Fund during fiscal year 2010 were $1,663.9 million, while total appropriations, net of current year lapses were $1,562.5 million. Additionally, fiscal year 2010 expenditures included a transfer of approximately $178 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 $101.4 million, a decrease of 10.4 percent.

Fiscal Year 2011Financial Results

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

Budgetary Basis. Fiscal year 2011 net revenues from lottery sources, including instant ticket sales and the State's participation in the multi-state Powerball game, increased by 3.4 percent. Total funds available, including prior year lapses and net revenues received by the Lottery Fund during fiscal year 2011 were $1,704.2 million, while total appropriations, net of current year lapses were $1,545.2 million. Additionally, fiscal year 2011 expenditures included a transfer of approximately $178 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 $159.0 million, an increase of 56.8 percent.

Fiscal Year 2012 Budget

The enacted fiscal year 2012 budget anticipates a 3.5 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 $1,616.5 million in fiscal year 2012, an increase of $55.1 million from fiscal year 2011 actual receipts. A portion of the increased revenues are attributable to 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 revenues are expected to increase. Appropriations, less estimated lapses, totaling $1,624.4 million are expected, which represents an increase of $79.2 million or 5.1 percent from fiscal year 2011. As was the case in the fiscal year 2011 budget, the fiscal year 2012 budget contains $178 million in State Lottery Fund expenditures for long-term care as state funds from other sources are being offset to support such costs. The fiscal year-end balance is projected to total $151.1 million, a decrease of 5.0 percent.

Trend projections for fiscal years beyond fiscal year 2012 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 partially funded from a further draw-down of available reserves and balances in the State Lottery Fund. Based upon current projections, higher revenues and/or lower expenditures will be required for the State Lottery Fund to balance operations within a fiscal year.

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

COMMONWEALTH REVENUES AND EXPENDITURES

Recent Receipts and Forecasts

Table 11, on the next 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 2006 through 2011 and as budgeted in the enacted fiscal year 2012 budget.

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Table 11
Commonwealth Revenues [a]
General Fund, Motor License Fund and State Lottery Fund - Unaudited
Fiscal Year 2006 – Fiscal Year 2011 and Fiscal Year 2012 Budget
(In Millions)

	Fiscal Year Ended June 30						
	2006	2007	2008	2009	2010	2011	Enacted 2012 [f]
General Fund							
Tax Revenues:							
Sales and use	$ 8,334.2	$ 8,590.8	$ 8,496.6	$ 8,135.5	$ 8,029.2	$ 8,590.2	$ 8,788.1
Personal income	9,524.1	10,261.6	10,907.7	10,198.7	9,968.7	10,435.7	10,999.6
Corporate (b)	3,382.8	3,492.4	3,437.6	2,767.6	2,552.2	2,950.8	2,994.7
Public utility (c)	1,191.2	1,340.8	1,393.6	1,418.7	1,326.2	1,259.6	1,246.8
Inheritance	745.2	756.6	828.6	772.2	753.8	805.2	838.1
Financial and insurance (d)	595.0	626.1	610.1	630.0	682.3	666.2	669.0
Cigarette	792.1	778.6	784.1	754.2	976.1	1,075.4	1,072.6
Realty transfer	552.5	571.0	429.5	294.5	296.0	279.2	291.4
Alcoholic beverages (e)	249.2	264.7	277.4	292.5	297.6	307.7	321.8
Other	3.7	1.4	128.0	30.8	27.9	90.7	110.6
TOTAL TAX REVENUES	$ 25,370.0	$ 26,684.0	$ 27,293.2	$ 25,294.7	$ 24,910.0	$ 26,460.7	$ 27,332.7
Non-Tax Revenues:							
Liquor store profits	$ 80.0	$ 150.0	$ 80.0	$ 125.0	$ 105.0	$ 105.0	$ 80.0
Licenses, fees and miscellaneous	368.6	573.6	506.3	90.2	2,606.7	915.9	365.0
Fines, penalties and interest	35.5	41.7	48.6	20.1	26.5	15.7	63.1
TOTAL NON-TAX REVENUES	$ 484.1	$ 765.3	$ 634.9	$ 235.3	$ 2,738.2	$ 1,036.6	$ 508.1
TOTAL GENERAL FUND	$ 25,854.1	$ 27,449.3	$ 27,928.1	$ 25,530.0	$ 27,648.2	$ 27,497.3	$ 27,840.8
Motor License Fund							
Tax Revenues:							
Liquid fuels	$ 581.8	$ 589.2	$ 591.7	$ 520.5	$ 548.9	$ 568.0	$ 580.2
Fuels use	162.4	162.8	157.1	149.6	145.3	152.0	148.1
Oil company franchise	445.2	462.8	447.7	452.8	448.0	455.0	454.6
Motorbus & alt fuels	36.6	40.6	40.0	40.3	41.7	43.7	44.6
TOTAL TAX REVENUES	$ 1,226.0	$ 1,255.4	$ 1,236.5	$ 1,163.2	$ 1,183.9	$ 1,218.7	$ 1,227.5
Non-Tax Revenues:							
Licenses and fees	$ 877.8	$ 870.0	$ 872.1	$ 883.9	$ 857.7	$ 891.6	$ 907.0
Other and miscellaneous	162.0	165.4	559.4	509.7	599.5	411.1	281.8
TOTAL NON-TAX REVENUES	$ 1,039.8	$ 1,035.4	$ 1,431.5	$ 1,393.6	$ 1,457.2	$ 1,302.7	$ 1,188.8
TOTAL MOTOR LICENSE FUND	$ 2,265.8	$ 2,290.8	$ 2,668.0	$ 2,556.8	$ 2,641.1	$ 2,521.4	$ 2,416.3
State Lottery Fund							
Non-Tax Revenues:							
Lottery revenues	$ 1,430.1	$ 1,465.8	$ 1,405.6	$ 1,389.8	$ 1,332.6	$ 1,389.5	$ 1,449.9
Other and miscellaneous	29.5	32.9	34.2	21.2	177.8	171.9	166.6
TOTAL NON-TAX REVENUES	$ 1,459.6	$ 1,498.7	$ 1,439.8	$ 1,411.0	$ 1,510.4	$ 1,561.4	$ 1,616.5
TOTAL STATE LOTTERY FUND	$ 1,459.6	$ 1,498.7	$ 1,439.8	$ 1,411.0	$ 1,510.4	$ 1,561.4	$ 1,616.5

Source: Office of the Budget. Totals may not add due to rounding.
(a) Budgetary basis including taxes and interest accrued but not deposited by the Commonwealth by June 30 of each fiscal year.
(b) Includes the corporate net income and the capital stock and franchise taxes.
(c) Includes the utility gross receipts and utility property taxes.
(d) Includes the financial institution and insurance premium taxes.
(e) Includes the liquor and malt beverage taxes.
(f) As enacted on June 30, 2011 (See Fiscal Year 2012 Budget for additional information).

Table 12, on the next 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 2005 through 2010.

Table 12
Commonwealth Revenues — Official Estimate vs. Actual[a]
General Fund and Motor License Fund – Unaudited
Fiscal Year 2005 — Fiscal Year 2011
(In Millions)

	General Fund			Motor License Fund		
Fiscal Year Ended June 30	Official Estimate[b]	Actual	Variance	Official Estimate [b]	Actual	Variance
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
2010	28,824.7	27,648.2	-1,176.5	2,636.1	2,641.1	5.0
2011	26,711.7	27,497.2	785.5	2,323.6	2,521.3	197.6

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 95.7 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, the capital stock and franchise tax, and the utility gross receipts tax. Together these five taxes produce 84.4 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 44 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 $10,435.7 million or 38.0 percent of fiscal year 2011 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 $8,590.2 million or 31.2 percent of fiscal year 2011 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 $2,131.5 million, or 7.8 percent of fiscal year 2011 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 $1,225.2 million, or 4.5 percent of fiscal year 2011 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 $819.4 million for the Commonwealth in fiscal year 2011, or 3.0 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 2008 is 2.89 mills, having been reduced from 3.89 mills effective January 1, 2008. This tax is scheduled to be phased out by annual rate reductions through 2014 under legislation enacted in 2002 and amended in 2003, 2006 and 2009.

Cigarette Tax. Collections of this tax totaled $1,075.4 million in fiscal year 2011, or 3.9 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 $1.60 per package of 20 cigarettes, which was increased by 25 cents in 2009.

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.

Inheritance and Estate Taxes. Collections of these taxes were $805.2 million in fiscal year 2011, or 2.9 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 transferred amount 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 $568.0 million, or 21.3 percent of Motor License Fund Commonwealth revenues in fiscal year 2011. 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 $455.0 million, or 17.1 percent of fiscal year 2011 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 $152.0 million, or 5.7 percent of fiscal year 2011 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 2010 totaled $125.4 million, representing 0.5 percent of Commonwealth revenues to the General Fund. Revenues from motor vehicle licenses and fees in fiscal 2010 were $891.6 million, representing 33.4 percent of total fiscal year 2011 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 2011 totaled $790.5 million and were comprised primarily of transfers of various reserve balances. Receipts from miscellaneous motor vehicle revenues in fiscal 2010 were $411.1 million, representing 22.5 percent of total fiscal year 2011 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 2011 was $105.0 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 2011 was $15.7 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 2010 totaled $24.4 billion, while such federal receipts were $27.0 billion in fiscal year 2011. Anticipated receipts for fiscal year 2012 are $22.6 billion. Approximately $15.1 billion, or 61.7 percent of total federal revenue to the Commonwealth for fiscal year 2010, was 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 2011, $17.0 billion, or 63.0 percent of federal revenues, was attributable to these types of programs. In the fiscal year 2012 enacted budget, approximately $15.5 billion or 68.5 percent of federal revenues is attributable to public health and welfare programs.

Federal receipts have been influenced by the enactment of ARRA, with receipts of $2.7 billion in fiscal year 2010 and $2.7 billion in fiscal year 2011 for increased Medicaid reimbursement and flexible state stabilization funds.

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 2010 and fiscal year 2011 and the enacted budget for fiscal year 2012.

Education

In fiscal year 2010, expenditures from Commonwealth revenues for education purposes were more than $11 billion. In fiscal year 2011, expenditures from Commonwealth revenues for education purposes were more than $10.9 billion. The enacted budget for fiscal year 2012 includes over $10.9 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. The largest such subsidy is the Basic Education subsidy. The enacted budget for fiscal year 2012 increases the state portion of the Basic Education subsidy by $621 million, or nearly 11.6 percent, to more than $5.3 billion. For each qualifying school district, the state share of this variance is based on its local wealth and its existing tax burden. The funding formula also considers district size as well as student enrollment characteristics such as family poverty levels and English language learners. For fiscal year 2012, each school district will be guaranteed, if necessary, no less than the amount received in 2008-09. Fiscal year 2010 and fiscal year 2011 were the final years of available federal stimulus dollars for basic education funding.

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 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 2010 were nearly $9.1 billion, representing 82.1 percent of all Commonwealth expenditures for education in fiscal year 2010. Total Commonwealth expenditures for basic education programs in fiscal year 2011 were nearly $9 billion, representing 81.8 percent of all Commonwealth expenditures for basic education programs in fiscal year 2011. The enacted budget for fiscal year 2012 includes more than $9.2 billion for basic education programs.

Table 13
Fall Enrollment in Pennsylvania Public and
Non-Public Elementary Schools and Secondary Schools
School Years 2007-2011
(In Thousands)

	School Year Ended June				
	2007	**2008**	**2009**	**2010**	**2011**
Elementary Schools					
Public	929	922	922	926	934
Nonpublic	196	190	182	173	171
Secondary Schools					
Public	892	880	863	852	845
Nonpublic	79	76	74	73	79
Total					
Public	1,821	1,802	1,785	1,778	1,779
Nonpublic	275	266	256	246	250
Total	2,096	2,068	2,041	2,024	2,029

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 that 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 in state and federal stimulus funds were expended by the Commonwealth in both the 2010 and 2011 fiscal years for these institutions and for student financial assistance. The enacted budget for fiscal year 2012 includes $1.6 billion for higher education.

Table 14
Full-Time Equivalent Enrollment at State-Supported Institutions of Higher Education
School Years 2007-2011
(In Thousands)

	School Year Ended June				
	2007	**2008**	**2009**	**2010**	**2011**
State System of Higher Education.	103	104	106	109	112
State-Related Universities	145	147	153	156	156
Community Colleges	91	92	99	106	110
State-Aided Institutions	48	49	49	50	22
Total	387	392	407	421	400

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.

Public health and human services expenditures were $27.3 billion in fiscal year 2010, $29.6 billion in fiscal year 2011 and are projected to be $29.9 billion for fiscal year 2012. With regard to fiscal year 2010 expenditures, $8.9 billion was funded from the General Fund, while $9.1 billion was funded from the General Fund in fiscal year 2011 and $10.9 billion is estimated to be provided from the General Fund for fiscal year 2012. The state fund amounts reflect the impact of the enhanced federal match of nearly $1.8 billion in fiscal year 2010 and $1.75 billion in fiscal year 2011. Federal funds are expected to decrease by $1.5 billion, and augmentations are expected to increase by $36.4 million for fiscal year 2012. 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, federal mandates, litigation and continued support of county operated programs for child welfare, mental health and mental retardation.

The fiscal year 2012 enacted budget includes $330.8 million of receipts from the Tobacco Settlement Fund and $60 million of prior year Health Endowment Account funds 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 $3.3 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 $185 million. The Commonwealth has filed suit to recover the disputed payment funding withheld by tobacco companies. For fiscal year 2011, receipts from the April 2010 payment were reduced by $36.8 million and for fiscal year 2012, receipts from the April 2011 payment were reduced by $47.6 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 $4.9 billion in fiscal year 2010, nearly $5.1 billion in fiscal year 2011, while $8.4 billion is budgeted from the General Fund for fiscal year 2012. A nursing home assessment fee provided a General Fund offset (meaning a reduction in required General Fund appropriations) of $237.8 million in fiscal year 2010, $144.5 million in fiscal year 2011 and is expected to provide a $192.7 million offset in fiscal year 2012. Fiscal year 2010 was the last year of a managed care organization assessment which provided a General Fund offset of $115 million. A Statewide managed care organization Gross Receipts Tax assessment provided a General Fund offset of $292.6 million in fiscal year 2010, $371.2 million in fiscal year 2011 and is expected to provide a $315.2 million offset in fiscal year 2012. In addition, a Statewide Quality Care Assessment provided a $120.9 million offset in fiscal year 2011 (first year) and $109 million offset in fiscal year 2012. For 2012 approximately 36 percent of the total cost of assistance to the economically needy will be 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 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 2001 through 2011 by an average annual rate of 5.6 percent. Fiscal year 2010 expenditures from Commonwealth funds and augmentations were $5.6 billion; in fiscal year 2011 expenditures were $6.1 billion and are projected to be $8.3 billion in 2012, an increase of 35 percent from the prior fiscal year primarily due to the loss of the enhanced federal match. Income maintenance cash assistance payments to families in transition to independence were $1.3 billion for fiscal year 2010, of which $466.7 million was from the General Fund. In fiscal year 2011, a total of $1.3 billion was provided, of which $459.8 million was from the General Fund. The enacted budget for fiscal year 2012 includes a total of $1.3 billion, with $406.1 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.

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. Other special funds, including the Public Transportation Assistance Fund, the Public Transportation Trust Fund and the State Lottery Fund provide the remainder of funding for these transportation programs.

Act 44, enacted in 2007, 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 which provided the Commonwealth with more funding for highways, bridges and transit. In fiscal year 2010, $900 million in additional funding was invested in the state's transportation system with $500 million going to highway and bridge projects and $400 million to mass transit projects. 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. After fiscal year 2010, Act 44 funding decreased due to the Federal Highway Administration's rejection of the Commonwealth's applications seeking federal authorization to toll and operate Interstate 80. Beginning in fiscal year 2011, lease payments from the Turnpike Commission to the Commonwealth declined to $450 million annually, with $200 million going to highway and bridge projects and $250 million to mass transit projects. The reduction in lease payments represents 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. To address transportation funding in the Commonwealth, Governor Tom Corbett established the Governor's Transportation Funding Advisory Commission

(TFAC) on April 21, 2011. TFAC by proclamation was specifically created to develop a comprehensive, strategic proposal for addressing the transportation funding needs of Pennsylvania. In July 2011, the TFAC made funding recommendations which could bring in up to $2.7 billion annually in new highway and mass transit funding within five years of implementation. The governor is evaluating these proposals, which include uncapping the oil company franchise tax and adjusting vehicle and driver fees with inflation.

In addition to its unrestricted state funds, the Motor License Fund includes five restricted revenue accounts funded by 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 2010 was $2.223 billion. While funding decreased to $1.950 billion in fiscal year 2011, an increase to $2.090 billion is budgeted in fiscal year 2012. The fiscal year 2012 total may increase with the realization of funding recommendations from TFAC.

Support of highway and bridge expenditures by local governments through grants paid from Motor License Fund and restricted revenues were $379.9 million in fiscal year 2010 and $382.2 million in fiscal year 2011. In the fiscal year enacted 2012, grants to local governments total $409.8 million.

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 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 established by the Act. The Public Transportation Trust Fund 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 payments from the Pennsylvania Turnpike Commission. 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 2010, Commonwealth funding available for mass transit was $1.171 billion. Funding for mass transit decreased in fiscal year 2011 to $1.010 billion. Fiscal year 2012 funding for mass transit is budgeted to increase slightly to $1.027 billion. The fiscal year 2012 total could increase with the realization of funding recommendations from TFAC.

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 years 2010 and 2011, $7.25 million was expended from aviation restricted accounts each year for such purposes. A total of $7.25 million is again budgeted for fiscal year 2012.

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."

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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 2002-2011
(In Millions)

At June 30	General Obligation Debt Outstanding
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
2010	9,891.7
2011	9,872.1

(a) Net of sinking fund balances.

Net outstanding general obligation debt totaled $9,872.1 million at June 30, 2011, a net decrease of $19.6 million from June 30, 2010. Over the 10-year period ended June 30, 2011, total net outstanding general obligation debt increased at an annual rate of 6.2 percent. Within the most recent 5-year period, outstanding general obligation debt has increased at an annual rate of 6.3 percent.

General obligation debt for non-highway purposes of $9,324.7 million was outstanding on June 30, 2011. Outstanding debt for these purposes decreased by a net $125.6 million since June 30, 2010. For the period ended June 30, 2010, the 10-year and 5-year average annual compound growth rate for total outstanding debt for non-highway purposes has been 6.3 percent and 5.5 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 $547.3 million on June 30, 2011, an increase of $105.69 million from June 30, 2010. Highway outstanding debt grew over the most recent 10-year and 5-year periods ended June 30, 2010, by the annual average rates of 4.6 percent and 31.9 percent respectively. A previous 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 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 is being initially provided from an existing restricted account rather than from general revenues of the Motor License Fund or the General Fund. During the 2010 fiscal year, the Commonwealth issued $200 million in general obligation bonds in order to jumpstart its bridge rehabilitation program. During fiscal year 2011, the Commonwealth issued $130 million in general obligation debt for the bridge rehabilitation program and the fiscal year 2012 budget includes $200 million in such general obligation debt authority.

Table 16 shows selected debt ratios for the Commonwealth for fiscal year 2001 and for fiscal years 2007 through 2011. 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 2001 and 2007 through 2011

	2001	2007	2008	2009	2010	2011
Net Outstanding Debt (Millions)						
General Obligation Debt(a)...............................	$ 5,416	$ 7,834	$ 8,177	$ 8,653	$ 9,893	$ 9,872
Lease Payment Obligations(b)...........................	651	835	1,137	1,342	1,871	2,123
Total..	$ 6,067	$ 8,669	$ 9,314	$ 9,995	$ 11,764	$ 11,995
% Increase (Decrease) over prior year.............	6.5%	8.5%	7.4%	7.3%	17.7%	2.0%
Population (Thousands)	12,297	12,517	12,562	12,602	12,632	12,632
Per Capita Debt...	$ 493	$ 693	$ 741	$ 793	$ 931	$ 950
Personal Income (Millions)................................	$ 377,373	$ 489,076	$ 508,248	$ 506,397	$ 522,731	$ 522,731
Debt as a % of Personal Income......................	1.6%	1.8%	1.8%	2.0%	2.3%	2.3%
Debt Service (Millions)(c)						
Highway Bonds(d)...	$ 121	$ 30	$ 30	$ 26	$ 36	$ 46
All Other Bonds...	636	849	912	975	996	1,129
Lease Payments..	74	47	58	74	92	127
Total..	$ 831	$ 926	$ 1,000	$ 1,075	$ 1,124	$ 1,302
Increase (Decrease) Over Prior Year	1.2%	8.6%	8.0%	7.5%	4.6%	15.8%
Cash Revenues (Million)(e)						
Motor License Fund...	$ 1,952	$ 2,291	$ 2,668	$ 2,635	$ 2,641	$ 2,521
General Fund..	20,562	27,449	27,928	25,529	27,648	27,497
Total..	$ 22,514	$ 29,740	$ 30,596	$ 28,164	$ 30,289	$ 30,018
% Increase (Decrease) over prior year............	1.3%	5.8%	2.9%	(8.0%)	7.6%	(0.9%)
Highway Bond Debt Service as a % of Motor Fund Revenues...	6.2%	1.3%	1.1%	1.0%	1.4%	1.8%
All Other Bond Debt Service and Lease Payments % of General Fund Revenues..............................	3.5%	3.3%	3.5%	4.1%	3.9%	4.6%
Total Debt Service and Lease Payments as a % of License and General Fund Revenues....................	3.7%	3.1%	3.3%	3.8%	3.7%	4.3%

(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.

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General Obligation Debt Outstanding

As of June 30, 2011, the Commonwealth had the following amount of general obligation debt outstanding:

Table 17
General Obligation Debt Outstanding as of June 30, 2011
(In Thousands)

	Debt Outstanding[b]	Less: Refunding Escrow[c]	Less: Sinking Fund[d]	Net Debt Outstanding
Capital Projects Debt:				
Capital Facilities Bonds	$ 6,739,095	$ (1,294,945)	$ (1,543)	$ 5,442,607
Highway Bonds(e)	517,500	-	-	517,500
Refunding Bonds(e)	2,754,527	-	-	2,754,527
Total Capital Projects Debt Outstanding	$ 10,011,122	$ (1,294,945)	$ (1,543)	$ 8,714,634
Electorate Approved Debt:				
PA Economic Revitalization Bonds	$ 950	-	-	$ 950
Land & Water Development Bonds	475	-	(354)	121
Nursing Home Loan Development Bonds	-	-	-	-
Volunteer Companies' Loan Bonds	11,655	-	-	11,655
Vietnam Veterans Compensation Bonds	-	-	-	-
Water Facilities Restoration-1981 Referendum	3,475	-	-	3,475
Pennvest—1988 Referendum Bonds	31,170	(7,380)	(1,785)	22,005
Pennvest—1992 Referendum Bonds	71,665	(9,150)	-	62,515
Agricultural Conservation Easement Bonds	1,260	-	-	1,260
Local Criminal Justice Bonds	4,725	(1,025)	(1,323)	2,377
Keystone Recreation, Parks & Conservation Bonds	-	-	-	-
Growing Greener Bonds	457,160	(44,520)	-	412,640
Water Supply and Wastewater Treatment Bonds	178,935	(17,880)	-	161,055
Persian Gulf Conflict Veterans	6,350	(760)	-	5,590
Water and Sewer Assistance	191,880	-	-	191,880
Total Electorate Approved Debt Outstanding	$ 959,700	$ (80,715)	$ (3,462)	$ 875,523
Other Bonded Debt:				
Disaster Relief Bonds	. . . .	-	-	. . . .
Refunding Bonds	281,903	-	-	281,903
Total Other Bonded Debt Outstanding	$ 281,903	. . . .	-	$ 281,903
Total General Obligation Debt Outstanding	$ 11,252,725	$ (1,375,660)	$ (5,005)	$ 9,872,060

[a] Reserved
[b] Accreted value of capital appreciation bonds included.
[c] Principal amount of bonds refunded to be paid from escrowed bond proceeds in State Treasurer escrow account.
[d] Funds already deposited in sinking funds.
[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 remains payable from the Motor License Fund.

Debt service payable during each fiscal year on outstanding general obligation debt, net of refunding escrow amounts, as of June 30, 2011, for the years shown is as follows:

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Table 18
Bond Debt Service
(In Thousands)

Fiscal Year Ending June 30	Principal	Interest	Total
2012	$702,145	$481,267	$1,183,512
2013	719,195	442,575	1,161,770
2014	678,105	405,939	1,084,044
2015	625,225	373,352	998,577
2016	596,915	342,509	939,424
2017	576,425	314,140	890,565
2018	578,020	285,033	863,053
2019	577,985	255,656	833,641
2020	557,705	227,388	785,093
2021	550,670	201,845	752,515
2022	542,170	178,552	720,722
2023	501,125	154,447	655,572
2024	489,085	130,365	619,450
2025	449,365	107,310	556,675
2026	455,875	85,679	541,554
2027	415,005	63,562	478,567
2028	350,500	42,853	393,353
2029	265,450	26,368	291,818
2030	194,175	12,295	206,470
2031	51,925	1,514	53,439
Grand Total	$ 9,877,065	$ 4,132,750	$14,009,815

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 at least two of the three 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 at least 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 already outstanding amounts, may not exceed in the aggregate 20 percent of the revenues estimated to accrue to the appropriate fund or funds in the fiscal year.

Tax anticipation notes must mature within the fiscal year in which they are 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 in the succeeding fiscal year budget.

Currently, the Commonwealth has no tax anticipation notes outstanding and based on current projections it does not appear that the Commonwealth will issue any tax anticipation notes during fiscal year 2012. The Commonwealth will continue to actively monitor its daily operating liquidity to determine if any tax anticipation notes are required during the later part of fiscal year 2012. In fiscal year 2011, the Commonwealth issued $1,000 million in tax anticipation notes and in fiscal year 2010, the Commonwealth issued $800 million in tax anticipation notes. In each instance, the Commonwealth paid the outstanding balance in full on June 30th of the respective fiscal year in which the tax notes were issued. In the preceding eleven fiscal years, the Commonwealth did not issue any tax anticipation notes.

Bond Anticipation Notes. Pending the issuance of bonds, the Commonwealth may issue bond anticipation notes subject to the same 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, on the next page, shows projected future issuance of new-money bonds (or bond anticipation notes) through fiscal year 2016 as currently estimated, based on current authorizations. Included in Table 19 are bonds expected to be issued under three bond referenda 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 the Table 19 projection.

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Table 19
Projected Bond Issuance and Principal Retirements
Fiscal Years 2012-2016[a]
(In Millions)

	Fiscal Year Ending June 30				
	2012	**2013**	**2014**	**2015**	**2016**
Capital Facilities[b]					
Buildings and Structures	$ 935	$ 1,150	$ 325	$ 330	$ 235
Furniture and Equipment	10	50	70	0	0
Transportation Assistance	212	175	175	175	175
Redevelopment Assistance	270	420	465	360	76
Flood Control	35	20	0	0	0
Bridge Projects	200	0	0	0	0
Special Purpose:					
Pennvest — 1988, 1992 & 2008 Referenda	70	70	66	0	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]	39	0	0	0	0
Persian Gulf Conflict Veterans Comp. Ref.[a]	0	0	0	0	0
Growing Greener II Referendum[a]	40	40	30	0	0
Total Projected Issuance	$ 1,811	$ 1,925	$ 1,068	$ 865	$ 486
Principal Retirement[c]	$ 759.6	$ 852.4	$ 871.0	$ 857.4	$ 865.1

Totals may not add due to rounding.
(a) As provided in the fiscal year 2012 budget.
(b) Includes issuance for new projects and for projects previously authorized.
(c) On bonded debt outstanding and pro forma for projected.

OTHER STATE-RELATED OBLIGATIONS

Moral Obligations

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

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

According to PHFA, as of June 30, 2011, PHFA had $4,588.9 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 the lease payments thereunder 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 material obligations secured by lease payments of Commonwealth departments and agencies payable from the General Fund or other budgeted special funds.

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

Lessor	Purpose	Maximum Annual Lease Payment	Principal Amount Outstanding as of 6/30/2011	Final Maturity
Harristown Development Corporation	Office Space	$ 6,302	$ 33,815	May 1, 2016
Philadelphia Regional Port Authority	Port Facilities	4,552	34,400	Sept. 1, 2020
Sports & Exhibition Authority of Pittsburgh and Allegheny County	Public Auditorium	19,100	316,190	Nov. 1, 2039
CAFCO-PA Leasing I, LLC	Prison Facilities	3,769	17,625	Dec. 1, 2015
NORESCO, LLC	Equipment	2,158	15,580	Oct. 1, 2026
NORESCO, LLC	Equipment	1,559	12,385	Oct. 1, 2026
NORESCO/Johnson Controls	Equipment	8,416	86,850	Apr. 1, 2027
Pennsylvania Economic Development Finance Authority	Convention Center	26,641	276,460	Jun. 15, 2039

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

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

In 2009, the Commonwealth executed an annually renewable lease purchase agreement with CAFCO-PA Leasing I, LLC, a Colorado limited liability company to assist the Commonwealth, 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, acting through its Department of Public Welfare, to acquire certain energy-savings improvements at its Ebensburg facility. Certificates of participation in the amount of $15,580,000 were issued in March 2010 and are payable from lease payments made by the Commonwealth from an annual appropriation to its Department of Public Welfare. The Commonwealth has also issued additional installment purchase agreements with Noresco and Johnson Controls. Certificates of participation in the amount of $86,850,000 were issued in October 2010 and are payable by the Commonwealth from annual appropriations to its Departments of General Services, Corrections and Public Welfare. Certificates of participation in the amount of $12,385,000 were issued in December 2010 and are payable by the Commonwealth from annual appropriations to its Departments of General Services and Public Welfare. The purpose of the additional installment purchase agreements was to assist the Commonwealth, acting through various departments, to acquire certain energy-savings improvements.

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"), to 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 fund such deficiency, 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 2009, the Commonwealth was notified by the SEA that an additional $5.08 million would 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 in its fiscal year 2010 budget.

During April 2010, the SEA issued $17.36 million in additional Commonwealth Lease Revenue Bonds (the "Supplemental Arena Bonds") to complete the Arena. The Supplemental Arena Bonds do not constitute debt of the Commonwealth but are limited obligations of the SEA payable solely from the Special Revenues pledged therefore. As with the Arena Bonds, the Commonwealth is obligated under the Arena Lease, as amended, to fund any deficiency in Special Revenues necessary to pay debt service on the Supplemental Arena Bonds, subject in all cases to appropriation by the General Assembly.

Pennsylvania Convention Center

In April 2010, the Commonwealth acquired (through ownership and a long-term leasehold interest) the Pennsylvania Convention Center located in Philadelphia, Pennsylvania and the expansion thereto that was recently constructed. Such acquisition was financed through the issuance by PEDFA (defined below) of $281.075 million of 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 also leases 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 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 Gaming Economic Development and Tourism Fund and (2) other funds of the Commonwealth, subject to annual appropriation by the state legislature. Payments from the Gaming Economic Development and Tourism Fund of up to $64,000,000 per year for up to 30 years (but not exceeding $880 million in the aggregate) have been appropriated by the General Assembly (by Act 53 of 2007, ("Act 53")) 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 in Act 53 or otherwise that funds in the Gaming Economic Development and Tourism Fund be so applied. Moneys in the Gaming Economic Development and Tourism Fund have also been appropriated by the General Assembly to a number of other projects and could be appropriated to additional projects in the future. The Gaming Economic 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. There can be no assurance that the Gaming Economic Development and Tourism Fund in any year will receive sufficient receipts to fund its appropriated payment obligations.

Any payments due from the Commonwealth under the Operating Agreement and the Grant Agreement and which are not paid from the Gaming Economic Development and Tourism Fund are subject to annual appropriation by the General Assembly. **The Commonwealth currently projects that payments materially in excess of the aggregate $880 million appropriated from the Gaming Economic Development and Tourism Fund will be required to be paid by it to satisfy the Commonwealth's obligations under the Operating Agreement and the Grant Agreement over the terms of such agreements.**

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 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.

Since November 2005, the CFA has completed multiple bond issues to fund programs established by its original economic stimulus mission of April 2004.

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 issuance authority of up to an additional $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 issuance authority will be utilized over the next two to four fiscal years. As of August 31, 2010, the CFA had issued $142.0 million in limited obligation revenue bonds authorized by Act 1. Further, the CFA has issued $550.0 million in limited obligation revenue bonds authorized by Act 63.

As of June 30, 2011, the CFA had $1,420.2 million in outstanding bond debt. With respect thereto, the Commonwealth's General Fund has appropriation responsibility with respect to for $871.9 million thereof and the Pennsylvania Gaming and Economic Development and Tourism Fund has appropriation responsibility with respect to $548.3 million of such outstanding debt. The Commonwealth's fiscal year 2012 enacted budget appropriates $82.019 million in state funds to the CFA for payment of CFA debt service during fiscal year 2012. Further, a portion of the existing interest earnings of the CFA, totaling approximately $3.5 million will be available to support CFA debt service payments. With respect to future fiscal year budgets, additional appropriations from the General Fund for future debt service are expected to be requested each year by the Department of Community and Economic Development for inclusion in future 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 that 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 enacted by the General Assembly. 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 the date of commencement of employment and elections made by each employee member. The SERS' employee contribution rate is 6.25 percent for a majority of member employees. 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 for most members hired before December 31, 2010, for SERS and before June 30, 2011, for PSERS.

Act 120 of 2010 and Commonwealth Contributions

On November 23, 2010, the Governor signed Act 120 of 2010 into law ("Act 120") to implement changes to the actuarial methodologies of both of the PSERS and the SERS pension plans. Act 120 also implemented employer contribution collars, set a permanent minimum employer contribution rate, changed the retirement benefits for new employees and prohibited the use by the Commonwealth of pension obligation bonds, among other changes.

The most significant change to the Commonwealth benefit pension systems from Act 120 is the enactment of employer contribution collars to reduce the previously anticipated major increases in pension contributions which would have been required of the Commonwealth beginning in fiscal year 2013. Contribution collars are limits on the amount of year-over-year increase that are required from the employer, namely the Commonwealth, plus in the case of PSERS, the Commonwealth school districts. Contribution collars are expressed as a percentage of payroll and under Act 120, the contribution collars will be 3 percent in fiscal year 2012, 3.5 percent in fiscal year 2013 and 4.5 percent in fiscal year 2014 and all future years beyond 2014 until the actuarial calculated rate is below the collared rate. To the extent the pension funds have large unfunded liabilities, as is presently the case, such capping of required employer contributions to the pension funds is likely to materially extend the period over which such unfunded liability is funded. Act 120 proposes to amortize certain PSERS unfunded liability over 24 years and certain SERS unfunded liability over 30 years.

Act 120 amended PSERS' actuarial cost method effective with the June 30, 2010 actuarial valuation and amended the benefit structure for new members on or after July 1, 2011. The key benefit reductions included the following: lowered the benefit accrual rate from 2.5 percent of final average salary for each year of service to 2 percent; increased the vesting period from 5 years to 10 years; eliminated the option for members to withdraw their contributions and interest; increased the normal retirement age; and implemented a shared risk provision that could raise or lower member contribution rates when annual returns over a multi-year period are higher or lower than the investment rate of return assumed for PSERS' actuarial valuations. Key funding provision changes are the re-amortizing of existing liabilities and future experience gains and losses over 24 years with level percent of pay, changing asset smoothing from five to ten years and the implementation of employer contribution rate collars as described above. Once the actuarial calculated rate is below the collared rate, the collars will disappear and the pension rate floor will be the actuarial normal cost.

With respect to SERS, Act 120 amended the benefit structure for most of SERS future employees hired after December 31, 2010 and amended the funding provisions. The key benefit reductions include the following: lowered the benefit accrual rate from 2.5 percent of final average salary for each year of service to 2 percent for most employees; increased the vesting period from 5 years to 10 years; eliminated the option for members to withdraw their contributions and interest; increased the normal retirement age; and implemented a shared risk provision that could raise or lower member contribution rates when annual returns over a multi-year period are higher or lower than the interest rate of return assumed for SERS' actuarial valuations. Key funding provision changes are the re-amortizing of existing liabilities and future experience gains and losses over 30 years with level dollar payments, and the implementation of employer contribution rate collars as described above. Once the actuarial calculated rate is below the collared rate, the collars will disappear.

The SERS composite Commonwealth contribution rate was 4.02 percent in fiscal year 2007, 4.04 percent in fiscal years 2008 and 2009, and 4.01 percent in fiscal year 2010. For fiscal year 2011, the General Assembly passed Act 2010-46, effectively setting the composite Commonwealth contribution rate at 1 percent greater than the previous fiscal year. The Commonwealth contribution rate was 5.01 percent for fiscal year 2011. If the General Assembly had not enacted Act 2010-46, the required Commonwealth contribution would have been 5.65 percent for fiscal year 2011. The composite rate for fiscal year 2012 is currently 8.01 percent.

For PSERS, the employer's contribution is shared by the Commonwealth and the school districts. The Commonwealth remits its employer contribution portion to the school districts, which then remit the entire employer contributions (both school district and Commonwealth portions) to PSERS. The Commonwealth's contribution is appropriated annually from the General Fund to the Department of Education. PSERS' employer rate was 6.46 percent in fiscal year 2007, 7.13 percent in fiscal year 2008, 4.76 percent in fiscal year 2009 and 4.78 percent in fiscal year 2010. For fiscal year 2011, the General Assembly passed Act 2010-46, effectively setting the employer contribution rate at 5.64 percent. If the General Assembly had not enacted Act 2010-46, the required employer contribution would have been 8.22 percent for fiscal year 2011. The composite rate for fiscal year 2012 is 8.65 percent.

Commonwealth contributions to SERS and to PSERS were $219.0 million and $382.8 million respectively in fiscal year 2007. In fiscal year 2008, the Commonwealth contributions were $237.5 million and $451.2 million respectively, constituting 8.4 and 18 percent increases in the year-over-year contribution to SERS and PSERS. During fiscal year 2009, Commonwealth contributions to SERS and PSERS were $242.5 million and $360.6 million, a 2.1 percent increase and a 20.1 percent reduction respectively in year-over-year contributions. During fiscal year 2010, Commonwealth contributions totaled $262.5 million for SERS, an 8.2 percent increase in year-over-year contributions, and for PSERS $342.6 million, a 5.0 percent decrease in the year-over-year contributions. For fiscal year 2011, for SERS, the Commonwealth contribution was $300.4 million, a 14.4 percent increase, and for PSERS, $408.6 million, a 19.3 percent increase. For fiscal year 2012, the SERS projected Commonwealth contributions will be $468.1 million, a 55.8 percent increase.

Based on the 2009 valuations of the two retirement systems, Commonwealth contributions to both systems were projected to increase significantly in fiscal year 2012 based on pre-Act 120 provisions. Those increases have been lowered in the near-term as a result of Act 120, but will continue to significantly rise over the next decade. For fiscal year 2012, the PSERS Board has certified a rate of 8.65% under the provisions of Act 120 compared to a pre-Act 120 rate of 10.61 percent. Commonwealth contributions to PSERS in fiscal year 2012 are estimated to be $600.1 million compared to pre-Act 120 anticipated contributions of $823 million. For fiscal year 2013, the employer contribution rate is projected to be 12.19 percent compared to a pre-Act rate projection of 29.5 percent. After 2013, employer rates are expected to rise to every year through FY 2015 by the percentage increases provided by the collars and would reach a maximum rate of 27.72 percent in FY 2020. After 2020 employer rates will decline slowly and will not drop below 20 percent until FY 2036.

With respect to SERS, Commonwealth contributions are expected to rise to $468.1 million or 8 percent of payroll in fiscal year 2012 compared to pre-Act 120 anticipated contributions of $1,107.9 or 18.9 percent of payroll. For fiscal year 2013, the Commonwealth contribution rate is now projected to be 11.5 percent as compared to 21.6 percent under pre-Act 120 provisions. After 2013, the Commonwealth rates are expected to rise every year through fiscal year 2016 by the percentage increases as provided for in the collars and would reach a maximum rate of 25.9 percent in fiscal year 2017. After 2017, Commonwealth rates will decline slowly and not drop below 20 percent until fiscal year 2029.

The General Assembly could again enact amendatory legislation which, among other results, could cause the Commonwealth contribution rates to be materially lower than the projected rates discussed in the above paragraphs.

Investment Performance

In common with many other public pension systems in the United States, the recent global economic crisis and resulting recession have had dramatic negative impacts on PSERS' and SERS' investment performance. For fiscal year 2009, PSERS generated a negative 26.54 percent annual return. SERS' return on investments for calendar year 2008 was negative 28.7 percent. Calendar year 2009 reflected an improvement in SERS' investment performance with a 9.1 percent return on investments. Similarly, PSERS' fiscal years 2010 and 2011 investment performance reflected an improvement from fiscal year 2009 with a rate of return of 14.59 percent and 20.37 percent, respectively.

Plan Assets

Contributions to the PSERS and SERS pension plans by the Commonwealth including medical premium assistance payments), employee contributions, interest earnings and benefit payments are shown in the following tables, which have been prepared by the respective staffs of PSERS and SERS.

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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)]
2006	$ 531	$ 828	$ 7,943	$ 4,164	$ 57,417
2007	746	855	12,703	4,371	67,523
2008	835	879	(1,776)	4,991	62,659
2009	608	911	(16,198)	4,983	43,207
2010	638	952	6,115	5,300	45,837

(a) Includes 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 presentations for these programs are made in 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)]
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
2009	253	349	3,561	2,297	24,662
2010	273	349	3,076	2,474	25,886

(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 which 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.

Actuarial Calculations and Unfunded Actuarial Accrued Liability

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. Actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may prove to be inaccurate or be changed in the future. Actuarial assessments will change with the future experience of the pension plans. The actuary's recommendations for employer contribution rates represent a funding plan for meeting current and future retirement obligations. The employer's contribution rate is computed to fully amortize the unfunded actuarial accrued liability of a plan as determined by the actuary. The unfunded accrued liability is a measure of the present value of benefits estimated to be due in the future for current employees under specified assumptions as to mortality, pay levels, retirement experience and employee turnover, less the present value of assets available to pay those benefits, under specified assumptions of normal cost, supplemental annuity amortization, employer contribution levels and employee contributions. The unfunded actuarial accrued liability for recent years with completed valuations is shown in Table 23 below for both SERS and PSERS.

The Boards of PSERS and SERS periodically review their respective system actuarial assumptions with actuaries, investment consultants and staff and determine whether to make any prospective changes to these assumptions. Both Boards have recently adopted changes to their respective system actuarial assumptions. In January 2009, the PSERS Board of Trustees decreased PSERS' actuarial investment rate of return assumption from 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 March 2011, the PSERS Board decreased the actuarial investment rate of return for a third time from 8.0 percent to 7.5 percent for the June 30, 2011 actuarial valuation based on a further reduction in the long term capital market rate of return assumptions of its investment consultant. In April 2009, the 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 to SERS' investment return assumptions conform to the median assumption used by public pension funds nationally.

Table 23
Unfunded Actuarial Accrued Liability
2005-2010
(In Millions)

Valuation Year Ended In	SERS[(a)]	PSERS[(b)]
2005..................................	$2,058	$10,007
2006..................................	2,216	12,163
2007..................................	914	9,438
2008..................................	3,801	9,924
2009..................................	5,592	15,739
2010……………………..	9,736	19,699

[(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 is attributable to legislative pension plan modification to limit funding increases and to recent actual rates of return on pension fund investments being materially below the actuarially assumed rates.

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'). Independently audited financial statements for both SERS and PSERS, as of December 31, 2010 and June 30, 2010, respectively, provide this comparison for each of the fiscal years then ended as shown in the following tables. The SERS and PSERS audited financial statements and other data regarding the respective pension plan are available electronically at the following respective websites www.sers.state.pa.us and www.psers.state.pa.us

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Table 24
Comparison of Employer Contributions to Annual Required Contributions
(In Thousands)

Public School Employees Retirement Fund

Year Ended June 30	Annual Required Contributions	Actual Employer Contributions	Percentages Contributed
2010	$1,928,278	$527,212**	27%
2009	1,761,295	503,277**	29
2008	1,852,238	753,532	41
2007	1,708,821	659,545	39
2006	1,328,373	456,878	34
2005	945,107	431,556	46
2004	321,091	321,091	100

State Employees' Retirement Fund

Year Ended December 31	Annual Required Contributions	Actual Employer Contributions	Percentages Contributed
2010	$866,822	$273,083	31%
2009	643,861	253,250	39
2008	584,248	235,288	40
2007	617,253	243,936	39
2006	584,745	196,420	36
2005	319,190	148,375	46
2004	105,229	106,703	100

(*) Excludes OPEB Obligations.
(**) Net of purchase of service contributions

On July 8, 2011, the Governmental Accounting Standards Board ("GASB") released its exposure draft of proposed changes in pension accounting and financial reporting standards for state and local governments (GASB 25 and 27), and if implemented, these changes will impact the accounting treatment of pension plans in which state and local governments participate. Major changes would be: 1) the inclusion of unfunded pension liabilities on the government's balance sheet (such unfunded liabilities are currently typically included as notes to the government's financial statements); 2) full pension costs would be shown as expenses regardless of actual contribution levels; 3) lower actuarial discount rates would be required to be used for most plans for certain purposes of the financial statements, resulting in increased liabilities and pension expenses; and 4) shorter amortization periods for unfunded liabilities would be required to be used for certain purposes of the financial statements, which generally would increase pension expenses. Following public comments on the exposure draft in 2011, new standards could be adopted in final form in 2012 and are expected to take effect in fiscal years beginning mid-2013 for most employers.

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 46 percent), and by Federal, Other and Special Funds. Commonwealth costs for such benefits totaled $541 million in fiscal year 2009, $563 million in fiscal year 2010 and an estimated $626 million in fiscal year 2011.

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 3 percent. 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 was eliminated and retirees enrolled in this plan had 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 were effective for the Commonwealth commencing with fiscal year 2008.

The Commonwealth has retained the Hay Group, a national employee benefits consulting firm, to provide actuarial services for GASB 45 implementation and reporting. In October 2009, the Hay Group issued an OPEB valuation for the REHP and RPSPP programs that reflected the following:

1. The combined unfunded actuarial accrued liability ("UAAL") as of June 30, 2009 was $15.273 billion. The UAAL for the REHP consisted of an actuarial accrued liability of $13.258 billion less $48 million of plan assets. The UAAL for the RPSPP consisted of an actuarial accrued liability of $2.104 billion less $41 million of plan assets.
2. The annual required contribution ("ARC") for the fiscal year ended June 30, 2009 was $962 million. The REHP ARC was $819 million and the RPSPP ARC was $143 million.
3. The OPEB liability as of June 30, 2009 was $407 million consisting of $313 million for the REHP and $94 million for the RPSPP.

Additionally, the Hay Group provided the Commonwealth with a draft report of an updated valuation in August 2011 that indicates the combined unfunded actuarial accrued liability ("UAAL") as of June 30, 2011 is $15.270 billion, with an ARC for the fiscal year ended June 30, 2011 of $1.043 billion and an OPEB liability as of June 30, 2011 of $1.267 billion. Based on this draft report, it is estimated that the OPEB liability will increase to $1.697 billion as of June 30, 2012.

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. The Commonwealth had previously established restricted receipt accounts for the REHP and RPSPP programs in order 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, $60 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. No additional transfers have been made to the trust accounts. At the end of fiscal year 2011, the combined balance in the trust accounts and restricted receipt accounts was $406 million.

Unemployment Compensation

The Commonwealth, as of June 30, 2011, had outstanding $3,762 million in loans from the Federal Unemployment Account to the Pennsylvania Unemployment Compensation Trust Fund (the "UC Fund"). Since June 30, 2011, the Commonwealth has made voluntary loan repayments to the Federal Unemployment Account totaling $1,130.0 million and the current outstanding loan to the UC Fund is $2,850.0 million as of September 12, 2011.

The Commonwealth is one of 29 states that had exhausted its UC Fund balances during the most recent economic downtown. The federal loans, which began in March 2009, were needed to fund unemployment compensation benefits in excess of UC Fund receipts.

Under current federal law, all such loans must be repaid by the states with interest. Under ARRA, a waiver of interest on federal loans was extended through the end of calendar year 2010. Beginning in January 2011, interest started to accrue on outstanding loan amounts. Pursuant to existing Commonwealth law, an interest tax of 0.44 percent took effect in January 2011 and is paid by Commonwealth employers on the first $8,000 in wages paid to each employee. In addition, federal law requires that employers in a state with an outstanding loan balance at the end of a second year must pay additional federal unemployment taxes ("FUTA") to repay the principal of the loan. This FUTA surcharge is 0.3 percent on the federal wage base of $7,000 and automatically increases by 0.3 percent each year that the loan remains outstanding.

Based on current econometric assumptions and assuming no state legislative action to increase the UC Fund funding, the Commonwealth, anticipates that the Commonwealth UC Fund will continue to require federal loans to continue to pay benefits through at least 2018 and its outstanding loan balance is estimated to total $1,750 million by 2018. Mandatory FUTA loan repayments are expected to begin in fiscal year 2012 and grow from an estimated $101 million that year to an estimated $794 million annually by 2018. Additional voluntary loan repayments from the UC Fund would likely grow from an estimated $1,227 million in fiscal year 2011 to $1,467 by fiscal year 2018 and the estimated interest on the outstanding UC Fund loans would drop from $100 million annually in fiscal year 2011 to $82 million by fiscal year 2018. **It is important to note that these repayment mechanisms do not have any impact on the Commonwealth's General Fund and are payable solely from the UC Fund.**

In December 2008, the Unemployment Compensation Advisory Council was convened and charged with studying the current system of financing UC Fund benefits and recommending legislative solutions to restore the UC Fund to long-term solvency. The executive branch and the legislative branches are considering various proposals to address the issue. Proposals under consideration include a combination of: 1) an increase in the taxable wage base; 2) a reduction in unemployment benefits; and 3) increases in both employer and employee tax rates. If enacted as proposed, such UC Fund legislation would be expected to enable the UC Fund to repay all outstanding loans, by 2018 and return to solvency in that year.

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, (excluding swap obligations) 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 $426.8 million in bonds outstanding as of June 30, 2011.

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 $1,326.6 million in revenue bond debt outstanding as of June 30, 2011.

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 $1,247.9 million of debt outstanding as of June 30, 2011.

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 $14.3 million in bonds outstanding as of June 30, 2011.

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 $7,905.3 million in bonds outstanding as of June 30, 2011.

Pennsylvania Higher Educational Facilities Authority ("PHEFA"). The PHEFA is a public corporation of the Commonwealth established to finance college facilities. As of June 30, 2011, the PHEFA had $6,250.6 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 $340.1 million in revenue bond debt outstanding on June 30, 2011, 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 $14.0 million of revenue bonds outstanding as of June 30, 2011.

Pennsylvania Turnpike Commission ("PTC"). The PTC operates the Pennsylvania Turnpike System ("System"). Its outstanding indebtedness, $7,478.1 million as of June 30, 2011, 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 $2,877.7 million of revenue bonds outstanding as of June 30, 2011.

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 July 26, 2011.

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 $494.7 million in special tax revenue bonds outstanding as of June 30, 2011. 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 does 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 2011 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,* 517 Pa. 65 (1987)**

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 remain 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* (now *Allstate Life Insurance Co. v. Commonwealth*), 890 A.2d 1223 (2006)**

The Northbrook case was the lead case in litigation with potentially the entire insurance industry that does business in Pennsylvania. On January 26, 2006, the en banc Commonwealth Court issued a conflicted decision in which the majority partially 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. Currently, there are docketed with the Commonwealth Court 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 Northbrook and now Allstate case along with all of the pending cases challenge the Department of Revenue's application of portions of the Life and Health Guaranty 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 claim the credit for assessments paid on all annuities, both during the period that annuities were taxed and going forward.

As noted above, following the Supreme Court's decision in Northbrook, which left questions remaining, the Allstate case was selected to relitigate the issues involved. The Allstate case was briefed and argued before a five judge en banc Commonwealth Court on December 9, 2009. On March 25, 2010, a 3-2 majority of the Court ruled that Allstate was entitled to claim a credit for all annuity assessments paid to the Guaranty Fund.

The Commonwealth filed exceptions. Following briefing and oral argument before a seven judge en banc Commonwealth Court, a 4-3 majority of the Court issued an unreported decision on October 15, 2010, overruling the Commonwealth's exceptions. The Commonwealth filed an appeal to the Pennsylvania Supreme Court; the parties have filed briefs and are awaiting instructions from the Supreme Court on oral argument.

The principal focus of the Allstate litigation is 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 Cases- Hosp. & Health Sys. Assoc. of Pa. v. Cmwlth*. No. 20 MAP 2010 -- *PA Medical Society v. Ins. Dept/Budget Office* No. 21 MAP 2010; *PA Medical Society v. DPW, Budget Office, et al*. No. 22 MAP 2010; *Hospital Assoc. of PA, et. al. v. DPW, et al*. No. 23 MAP 2010 (consolidated) (PA Supreme Court)**

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 has appealed these decisions to the Pennsylvania Supreme Court. The 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. Briefing is complete and oral arguments occurred in September, 2011.

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 will be used to provide the funds or authority to fulfill the Commonwealth's liabilities. Litigation obligations imposed on the Commonwealth in excess of budgeted amounts would require the Commonwealth to identify new revenue sources, or to reduce budgeted expenses so as to avoid a budgetary deficit.

***Harlee Manor, Inc. v. Dept. of Public Welfare,* No. 264 MD 2005 (Pa Commw. 2005)**

This action challenges an assessment imposed on nursing homes to generate revenue for the Medicaid budget. The parties are currently in negotiations with each other and the federal government to resolve the issue. If the Court strikes down the assessment, analysts estimate the Commonwealth would lose $331 million in state funds and a like amount in federal matching funds.

CG, et al. v. PDE, et al., No. 1: CV-06-1523 (M.D. Pa.)

This is a class action commenced in 2006. The representative plaintiffs are parents of students in the Lancaster and Reading School Districts who challenge the Commonwealth of Pennsylvania's method for distributing special education funds. The defendants are the Pennsylvania Department of Education and the Secretary of Education. The Office of Attorney General represents the defendants.

The plaintiffs contend that section 2509.5 of the Public School Code of 1949, 24 P.S. § 25-2509.5 – the Pennsylvania statute that apportions special education funding – violates these federal laws: the Individuals with Disabilities Education Act ("IDEA"); section 504 of the Rehabilitation Act of 1973; the Due Process Clause of the Fourteenth Amendment (this claim was dismissed by Chief Judge Kane on summary judgment entered in January 2011); the Equal Educational Opportunities Act of 1974 ("EEOA"); and Title II of the Americans with Disabilities Act of 1990 ("ADA"). The claims against the Secretary under the ADA and the Rehabilitation Act were also dismissed on summary judgment because they cannot be made against individuals, only entities such as PDE. The court dismissed the plaintiffs' constitutional claim because the judge discerned a rational basis for Pennsylvania's special education funding formula.

<u>PA Special Ed Subsidy Program and the IDEA</u>

The IDEA conditions a state's receipt of federal funds for special education on the implementation of statewide special education programs guaranteeing a free appropriate public education ("FAPE") to eligible disabled children.

Consistent with the IDEA, Pennsylvania appropriates funding to local school districts on an annual basis specifically for special education.

The plaintiffs allege that PA's funding formula violates federal law because it requires PDE to allocate special education funds to a school district based on average daily membership of special education students across the Commonwealth, rather than on the actual number of special education students enrolled in the district.

The Commonwealth employs what is commonly known as a "census based" funding model to supplement local special education budgets. That is, funds are allocated, in part, based on the average number of special education students enrolled in all districts in Pennsylvania, rather than on a headcount of special education students actually enrolled in a particular district or per special education resource. The Pennsylvania funding formula consists of four parts: (1) the base amount and base supplement; (2) an inflation index supplement; (3) a minimum percentage funding increase, and (4) a special education contingency fund. 24 P.S. § 25-2509.5.

Of the four parts of the funding model, the plaintiffs primarily object to the first, which accounts for the vast majority of the Commonwealth's annual allocation of special education funding to local school districts. The base amount is equal to the total amount of state funding the school district received in the previous year.

The base supplement is calculated as follows: (1) multiply the district's market value/personal income ratio ("MVPI ratio") by 16% — where 16% is equal to the average enrollment of special education students across the Commonwealth — of the prior school year's average daily membership of the school district; (2) multiply the resulting product by the Commonwealth's total available supplemental funding; and (3) divide that product by the sum of the products of the MVPI ratio multiplied by 16% of the average daily membership of all school districts for the prior school year.

This supplemental amount makes up only about 2.6% of the Commonwealth's total special education budget and is limited to approximately 2% to 4% of each district's budget; the vast majority of special education funding is determined by the base amount. However, because the base supplement allocates funding based on the average enrollment of special needs students across the Commonwealth and the base amount is derived, in large part, from each prior year's base supplements, the average enrollment of special needs students is factored in to the annual base amount.

The plaintiffs seek declaratory judgment and an injunction requiring the Secretary of Education to abandon the current funding formula and to distribute special education funds based upon the actual number of disabled students in each district and the actual cost of their special education needs.

Trial is scheduled for September 2011. An adverse ruling on the funding formula and redistribution of special education funds would have an impact on the amounts budgeted for this purpose for the current fiscal year. By way of background, the primary state subsidy to schools for special education in 2011-12 is approximately $1.027 billion. The Basic Education Funding subsidy for 2011-12 is approximately $5.35 billion.

We believe that if the Commonwealth was found liable on the IDEA, ADA/504, ***and*** EEOA claims, the likely remedy would result in the legislature redistributing current subsidy amounts, but also would require some additional appropriations.

<u>Special Ed. Funding</u>

Redistribution would likely occur so that the Commonwealth shifted state special ed funding from those school districts that have *fewer* than 16% special needs students to those school districts that have *greater percentages of such students*. It is also possible that the court would order higher levels of state spending on special ed students overall; however any projection of an amount is totally speculative. Based on the current formula amount, however, even a 5% increase in the overall subsidy would amount to more than $50 million.

Notably, one of plaintiffs' experts, drawing information from the APA costing-out report, suggests the following formula for calculating the amount of state special education dollars that should be provided to school districts: $8,003 x 0.9 x MV/PI Aid Ratio x Number of special education students. Using the suggested formula, the Attorney General's office indicated that the formula would require the state special education appropriation to be increased by about $45 million.

(One further note: in order to address a court order, the General Assembly might re-allocate funding from BEF to Special Ed subsidy, so there might be no net cost to the Commonwealth. Notably, a $50 million cost-shift from BEF to special ed subsidy would require less than a 1% reduction in BEF.)

<u>LEP & Special Ed.</u>

The most likely area where a court-ordered remedy would require additional state funding is for those students that are both special needs students and Limited English Proficiency (LEP). A worst-case scenario might be that the court would require the Commonwealth to develop a subsidy that must be directed to this class of students and spent on only those students. Current data indicate that there are approximately 4,500 such students Commonwealth-wide. (There are about 270,000 total students with disabilities in the Commonwealth.) If a supplement of $5,000 was ultimately required for each student, the resulting expenditure would exceed $22 million.

Because the plaintiffs' case has focused on those ***school districts*** which have both high percentages of special needs students and high percentages of LEP students—of which there are only four—it is possible that a court-ordered remedy would focus on those school districts (rather than all students with both identifying criteria) and direct additional funding to those districts. Under such a district-based scenario, however, a lesser amount of new funding might be ordered.

***Sears, et al. v. Corbett*, No. 121 MD 2011 (Pa Commw. 2011) and *Weisblatt, et al. v. Corbett*, No. 157 MD 2011 (Pa Commw. 2011)**

Petitioners, former participants in the Pennsylvania adultBasic Insurance Coverage program ("adultBasic"), filed a class action suit against Governor Tom Corbett, Budget Secretary Charles Zogby, Senate Speaker of the House Samuel H. Smith, President Pro Tempore of the Senate Joseph B. Scarnati III, Robert McCord and the Department of Treasury ("Respondents"), seeking declaratory, mandamus and injunctive relief from alleged violations of the Pennsylvania Tobacco Settlement Act (Act), Act of June 26, 2001, P.L. 755, 35 P.S. § 5701.101 *et. seq*.

Section 303 of the Act, 35 P.S. § 5701.303, establishes a Tobacco Settlement Fund ("Fund"), to receive and distribute payments received by the Commonwealth pursuant to the Master Settlement Agreement ("Agreement") of June 22, 2000, P.L. 394. The Agreement was entered into on November 23, 1998, by the Commonwealth and leading United States tobacco manufacturers approved by the Court of Common Pleas, Philadelphia County, in January 13, 1999, 40 Pa. D. & C. 4th 225. 35 P.S § 5671-5675. The Agreement requires tobacco product manufactures to provide for home and community based care for tobacco use prevention and cessation efforts. 35 P.S. § 5701.101. The Agreement further mandates the establishment of a Health Endowment Account ("Account") for long-term hope pursuant to Section 303 of the Act. 35 P.S. § 5701.303. The money placed into the Fund is governed by Section 306 of the Act, 35 P.S. § 5701.306, setting forth a formula determining the percentage of money allocated to be appropriated to certain programs. One of the programs created by Section 1303 of the Act was the adultBasic coverage insurance program. The adultBasic program received appropriations from the Fund pursuant to section 306(b)(1)(vi) of the Act. 35 P.S. § 5701.306(b)(1)(vi). The Act established that the adultBasic program shared its funding stream with the Medical Benefits For Workers With Disabilities Program ("MAWD"), established by Section 1503 of the Act, 35 P.S. § 5701.1503, pursuant to Section 306(b)(1)(vi) of the Act.

The ultimate purpose of the lawsuit is to force the legislature to restore adultBasic. The gravamen of petitioners' legal claim is predicated on the claim that in redirecting money from the Tobacco Settlement Fund, through certain 2010 and 2011 amendments to the Fiscal Code, the legislature somehow "violated" the TSA, and the contention that the amendments to the Fiscal Code violated the Pennsylvania Constitution's "single subject" rule. PA. CONST. art. III, §3. The petitioners also allege violations of Article III Sections 6, and 11 of the Pennsylvania Constitution. Petitioners claim that the General Assembly, when enacting the 2010 and 2011 amendments to the Fiscal Code, effectively amended the Fiscal Code by reference only to its title, in violation of Article III, Section 6 the Pennsylvania Constitution. Pa. Const. Art. III § 6. They also claim the legislative process occurred in a manner inconsistent with the provisions of the Act in violation of the Article III, Section 11 requirement that the general appropriation bill shall embrace nothing but appropriations for the executive, legislative and judicial departments for the Commonwealth, for the public debt and for public schools. Pa. Const. Art. III § 11.

After discontinuation of the adultBasic program, Petitioners filed a request for preliminary injunctive relief with the Commonwealth Court requesting the court to enjoin the Treasurer. The court denied the request holding that ". . . because the funds sought to be frozen were to be used to balance the budget, greater harm would be caused by granting the injunction rather than refusing it and issuing it would not restore the parties to the status quo." *Sears v. Corbett*, 157 M.D. 2011 The Court noted that MAWD received its funding from the Fund before adultBasic because MAWD was an entitlement program in contrast to the adultBasic program, which was subsidized by Pennsylvania Blue Cross/Blue Shield plans pursuant to the Community Health Reinvestment Agreement which expired in December 2010. *Id*. Moreover, the Court determined that in 2010 only $20 million from the Fund was available to fund adultBasic, which was insufficient to allow adultBasic to continue operating. *Id*. Thereafter, petitioners in both cases amended their petitions, adding the constitutional challenges associated with the 2011 amendments to the Fiscal Code.

The Commonwealth intends to file preliminary objections which will likely be heard by the Court in late 2011 or sometime in 2012. An adverse ruling would require the Governor and the General Assembly to take steps to revise the current 2011-2012 budget based upon the redistribution of monies which would directly impact numerous other programs.

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 respective 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 written analyses of Commonwealth finances expected to be released upon release of their respective 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."

VERIFICATION OF MATHEMATICAL COMPUTATIONS

BondResources Partners, LP has verified the arithmetical accuracy of certain computations included in the schedules provided by Public Financial Management on behalf of the Commonwealth relating to (i) computation of forecasted receipts of principal and interest on the Escrow Obligations and the forecasted payments of principal and interest to redeem the Refunded Bonds, and (ii) computation of the yields on the Bonds and the Escrow Obligations. Such computations were based solely on assumptions and information supplied by Public Financial Management on behalf of the Commonwealth. BondResources Partners, LP has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based, and accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

TAX EXEMPTION AND OTHER TAX MATTERS

Certain Federal Income Tax Matters

On the date of delivery of the Bonds, Fox Rothschild LLP ("Bond Counsel") will issue an opinion to the effect that under existing statutes and court decisions as of the date of initial delivery of the Bonds, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although interest on the Bonds is taken into account for purposes of computing alternative minimum tax that may be imposed by the Code on certain corporations. The opinion of Bond Counsel will assume the accuracy of certifications made by the Commonwealth and will be subject to the condition that the Commonwealth complies with all requirements of the Code. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income prospectively and/or retroactively to the date of issuance of the Bonds.

Notwithstanding the general exclusion of interest on the Bonds from gross income and the exemption of the Bonds and the interest thereon from certain taxes, ownership of the Bonds may result in certain other federal income tax consequences to certain taxpayers, including, without limitation, certain foreign corporations doing business in the United States that are subject to the branch profits tax imposed by the Code, financial institutions, property and casualty insurance companies, certain subchapter S corporations with substantial passive income and Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers otherwise eligible for the earned income credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. Bond Counsel will express no opinion as to such other tax consequences, and prospective purchasers of the Bonds should consult their tax advisors as to all matters relating to the acquisition, ownership and disposition of the Bonds.

Certain maturities of the Bonds may be sold to the public in the initial offering at a price greater than the stated redemption price of such the Bonds at maturity (that is, greater than par or the stated principal amount), the difference being "original issue premium." Generally, original issue premium is amortizable ratably over the term of the obligation through reductions in the holder's tax basis for purposes of determining taxable gain or loss upon the sale or other disposition of such obligation prior to maturity. Amortizable premium is accounted for as reducing the tax-exempt interest on the obligation rather than creating a deductible expense or loss. The Code provides specific rules for the amortization of original issue premium on tax-exempt obligations for Federal income tax purposes. Prospective purchasers of the Bonds being sold with original issue premium should consult their tax advisors for further information.

Certain Pennsylvania Tax Matters

On the date of delivery of the Bonds, Bond Counsel will issue an opinion to the effect that, under the laws of the Commonwealth of Pennsylvania as enacted and construed as of the date of initial delivery of the Bonds, the Bonds are exempt from personal property taxes in Pennsylvania and interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax.

American Jobs Act of 2011

On September 12, 2011, President Obama submitted to Congress a legislative proposal entitled the "American Jobs Act of 2011" (the "Jobs Act"). If enacted, the Jobs Act would limit for certain individual taxpayers the value of the exclusion for tax-exempt interest, to 28 percent irrespective of the actual marginal tax rate imposed on such taxpayers. The Jobs Act would be effective for taxable years beginning on or after January 1, 2013. It is not possible to predict whether this proposal will be enacted into law. If enacted in its current form as to tax-exempt interest, the Jobs Act would prevent beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest and could affect the market price or marketability of the Bonds. Prospective investors should consult with their tax advisors on the foregoing matters as they consider an investment in the Bonds.

UNDERWRITING

After competitive bidding on October 18, 2011, the First Series Bonds and the First Refunding Series Bonds were awarded to a selling group represented by Citigroup Global Markets Inc. (the “Underwriters”) for a purchase price of $925,020,223.50 which is equivalent to the principal amount of such Bonds, less Underwriters’ discount of $2,190,080.75 plus original issue premium of $115,635,304.25. The Underwriters have supplied the public offering yields and prices of the Bonds shown on the inside cover hereof. If all of the First Series Bonds and the First Refunding Series Bonds are resold to the public at such yields, the underwriters’ discount will approximate 0.2698556 percent of the aggregate principal amount of the First Series Bonds and the First Refunding Series Bonds. The Underwriters may change the public offering yields from time to time.

LEGALITY FOR INVESTMENT

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

FINANCIAL ADVISOR

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

LEGAL MATTERS

All legal matters incident to the authorization and issuance of the Bonds are subject to the approval of the Attorney General of the Commonwealth of Pennsylvania, The Honorable Linda Kelly, and of Fox Rothschild LLP, Bond Counsel. A copy of the opinion of Bond Counsel for the 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, Mr. Charles Zogby, 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 2012 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 in an electronic format as required by the MSRB on the MSRB's Electronic Municipal Market Access system ("EMMA") 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 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 24 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, but in no event longer than within 10 business days following such a listed occurrence, to the MSRB of the following events with respect to the Bonds:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security;
7. Modifications to rights of Bond holders, if material;

8. Bond calls, if material and tender offers;
9. Defeasances;
10. Release, substitution or sale of property securing repayment of the Bonds, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the Commonwealth;
13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the Commonwealth, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

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

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

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

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

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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/ Tom Corbett
TOM CORBETT, Governor

/S/ Robert M. McCord
ROBERT M. McCORD, State Treasurer

/S/ Jack Wagner
JACK WAGNER, Auditor General

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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 September 1, 2011	$ 33,234,462,394
(i)	The amount of outstanding net debt as of the end of the preceding fiscal year	$ 8,714,634,088
(ii)	The amount of such net debt as of August 31, 2011.......................	$ 8,520,640,376
(iii)	The difference between the limitation upon all net debt outstanding as provided in Article VIII, Section 7 (a) (4) of the Constitution of Pennsylvania and the amount of such net debt as of the date of August 31, 2011	$ 49,639,668,814
(iv)	The amount of such debt scheduled to be repaid during the remainder of the current fiscal year	$ 410,953,354
(v)	The amount of debt authorized by law to be issued, but not yet incurred	$ 86,441,559,968
(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	$ 9,403,789,192

IN TESTIMONY WHEREOF, I have set my hand and affixed the seal of the Auditor General, this 1st day of September 2011.

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

(Seal)

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SELECTED DATA ON THE COMMONWEALTH OF PENNSYLVANIA

General

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

Pennsylvania's agricultural industries remain an important component of the commonwealth's economic structure, accounting for more than $5.4 billion in crop and livestock products annually. In 2010, agribusiness and food related industries reached export sales surpassing $1.3 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 66 million tons of anthracite and bituminous coal, 273 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 2010 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 2010, 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 2001 to 2010 and the age distribution of the population for 2009.

Population Trends
Pennsylvania, Middle Atlantic Region and the United States
2001-2010

	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.
2001	12,297	39,877	285,049	100%	100%	100%
2002	12,324	40,032	287,746	100	100	101
2003	12,361	40,172	290,242	100	101	102
2004	12,387	40,297	292,936	101	101	103
2005	12,416	40,370	295,618	101	101	104
2006	12,466	40,451	298,432	101	101	105
2007	12,517	40,581	301,394	102	102	106
2008	12,562	40,697	304,177	102	102	107
2009	12,602	40,854	306,656	102	102	108
2010	12,632	40,916	309,051	103	103	108

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

Population by Age Group — 2009
Pennsylvania, Middle Atlantic Region and the United States

Age	Pennsylvania	Middle Atlantic Region[(a)]	United States
Under 5 years	5.9 %	6.1 %	6.8 %
5-24 years	25.7	25.9	27.1
25-44 years	25.4	26.9	27.7
45-64 years	27.6	27.1	25.6
65 years and over	15.4	14.0	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 2010 increased at an average annual rate of 0.0004 percent compared with a decrease 0..001 percent rate for the Middle Atlantic region and 0.001 percent rate for the U.S. The following table shows employment trends from 2001 through 2010.

Non-Agricultural Establishment Employment Trends
Pennsylvania, Middle Atlantic Region and the United States
2001-2010

	Total Establishment Employment In Thousands			Total Establishment Employment as a % of 2001 base		
Calendar Year	PA	Middle Atlantic Region[a]	US	PA	Middle Atlantic Region[a]	US
2001	5,682	18,374	131,826	100 %	100 %	100 %
2002	5,640	18,087	130,341	99	99	99
2003	5,611	17,999	129,999	99	98	99
2004	5,644	18,108	131,435	98	99	100
2005	5,702	18,278	133,703	100	100	101
2006	5,756	18,446	136,086	101	101	103
2007	5,798	18,610	137,598	102	102	104
2008	5,799	18,640	136,790	102	102	104
2009	5,608	18,056	130,920	99	99	99
2010	5,684	18,184	130,262	100	100	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 90.0 percent of total employment by 2010. Consequently, manufacturing employment constitutes a diminished share of total employment within the commonwealth. Manufacturing, contributing 10.0 percent of 2010 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 2010, the services sector accounted for 47.5 percent of all non-agricultural employment while the trade sector accounted for 15.0 percent. The following table shows trends in employment by sector for Pennsylvania from 2006 through 2010.

Non-Agricultural Establishment Employment by Sector
Pennsylvania
2006-2010
(In Thousands)

	CALENDAR YEAR									
	2006		2007		2008		2009		2010	
	Employees	%	Employees	%	Employees	%	Employees	%	Employees	%
Manufacturing:										
Durable……….………	414.4	7.2	407.4	7.0	398.5	6.9	330.6	6.0	334.4	6.0
Non-Durable…..………	256.0	4.4	251.7	4.3	245.2	4.2	223.6	4.0	226.3	4.0
Total Manufacturing[d]……	670.4	11.6	659.1	11.4	643.7	11.1	554.2	10.0	560.7	10.0
Non-Manufacturing:										
Trade[a]………..………	1,125.8	19.6	1,134.2	19.6	887.1	15.3	837.2	15.1	844.4	15.0
Finance[b]…………..…	335.0	5.8	332.8	5.7	329.8	5.7	313.6	5.6	309.9	5.5
Services…………..…..	2,365.0	41.1	2,400.6	41.4	2,674.5	46.1	2,625.9	47.3	2,670.8	47.5
Government…………	745.6	13.0	749.4	12.9	749.3	12.9	755.7	13.6	757.2	13.5
Utilities[c]…..………..	233.5	4.1	239.1	4.1	238.8	4.1	228.5	4.1	233.1	4.1
Construction………..…	261.0	4.5	262.3	4.5	254.6	4.4	216.5	3.9	216.2	3.8
Mining……..………..…	19.7	0.3	20.4	0.4	21.6	0.4	22.6	0.4	26.3	0.5
Total Non-Manufacturing[d]	5,085.6	88.4	5,138.8	88.4	5,155.7	88.9	5,000.0	90.0	5,057.9	90.0
Total Employees[d][e]	5,756.0	100.0	5,797.9	99.8	5,799.4	100.0	5,554.2	100.0	5,618.6	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 2010.

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

	2010 Calendar Year	
	Pennsylvania	United States
Manufacturing......................................	10.0%	9.1%
Trade[a]	15.0	15.3
Finance[b]...	5.5	5.9
Services..	47.6	44.0
Government..	13.5	17.2
Utilities[c]	4.1	3.7
Construction...	3.8	4.6
Mining..	0.5	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 13.9 percent of Pennsylvania manufacturing employment but only 1.4 percent of total Pennsylvania non-agricultural employment in 2010. The following table shows trends in manufacturing employment by industry for Pennsylvania from 2006 through 2010.

Manufacturing Establishment Employment by Industry
Pennsylvania
2006-2010
(In Thousands)

	CALENDAR YEAR									
	2006		2007		2008		2009		2010	
	Employees	%	Employees	%	Employees	%	Employees	%	Employees	%
Durable Goods:										
Primary Metals…………….	43.5	6.2	42.6	6.5	41.6	6.5	35.5	6.2	35.9	6.4
Fabricated Metals………….	90.9	12.8	91.5	13.9	91.7	14.2	79.5	13.8	77.7	13.9
Machinery (excluding electrical)….	57.0	7.9	56.8	8.6	56.4	8.8	47.4	8.3	45.3	8.1
Electrical Equipment……….	26.7	3.7	26.9	4.1	27.1	4.2	24.8	4.3	24.7	4.4
Transportation Equipment….	44.3	6.2	43.5	6.6	43.6	6.8	38.6	6.7	36.8	6.6
Furniture Related Products…..	23.7	3.5	22.3	3.4	20.3	3.2	16.1	2.8	14.9	2.7
Other Durable Goods………	128.3	19.2	123.8	18.8	117.8	18.3	102.9	17.9	99.1	17.7
Total Durable Goods[a]…...	414.4	59.5	407.4	61.8	398.5	61.9	344.8	60.1	334.4	59.6
Non-Durable Goods:										
Pharmaceutical/Medicine…	21.9	3.3	22.0	3.3	22.3	3.5	21.7	3.8	21.5	3.8
Food Products…………...	68.9	10.5	69.0	10.5	67.8	10.5	66.8	11.6	66.3	11.8
Chemical Products…………	46.7	7.6	46.4	7.0	45.9	7.1	43.5	7.6	43.0	7.7
Printing and Publishing……	36.4	5.5	35.2	5.3	33.2	5.2	29.9	5.2	28.2	5.0
Plastics/Rubber Products…….	39.8	5.9	39.5	6.0	39.1	6.1	35.0	6.1	35.1	6.3
Other Non-Durable Goods…	42.3	7.5	39.6	6.0	36.9	5.7	32.4	5.6	32.2	5.7
Total Non-Durable Goods[a]	256.0	40.3	251.7	38.2	245.2	38.1	229.3	39.9	226.3	40.4
Total Manufacturing Employees[a]……………	670.4	100.0	659.1	100.0	643.7	100.0	574.1	100.0	560.7	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 8.7 percent in early 2010 compared to 4.3 percent annual unemployment rate in 2007. As of August 2011, the most recent month for which figures are available, Pennsylvania had a seasonally adjusted annual unemployment rate of 8.2 percent. The following table represents the annual non-adjusted unemployment rate in Pennsylvania, the Middle Atlantic Region, and the United States from 2001 through 2010.

Annual Average Unemployment Rate
Pennsylvania, Middle Atlantic Region and the United States
2001-2010

Calendar Year	Pennsylvania	Middle Atlantic Region[a]	United States
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	5.4	5.8
2009	8.0	8.4	9.3
2010	8.7	8.8	9.6

[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
December 2010

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

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

Personal Income

Personal income in the commonwealth for 2010 is $522.7 billion, an increase of 3.2 percent over the previous year. During the same period, national personal income increased by 2.9 percent. Based on the 2010 personal income estimates, per capita income is at $41,152 in the commonwealth compared to per capita income in the United States of $40,584. The following tables represent annual personal income and per capita income from 2001 through 2010.

Personal Income
Pennsylvania, Mideast Region and the United States
2001-2010

	Total Personal Income Dollars in Millions			Total Personal Income As a % of 2001 base		
Year	**PA**	**Mideast Region[a]**	**US.[b]**	**PA**	**Mideast Region[a]**	**US**
2001	$ 377,373	$1,637,375	$ 8,878,830	100 %	100 %	100 %
2002	387,663	1,662,680	9,054,702	103	102	102
2003	399,547	1,707,492	9,369,072	106	104	106
2004	417,790	1,808,113	9,928,790	111	110	112
2005	432,247	1,898,598	10,476,669	115	116	118
2006	462,703	2,046,137	11,256,516	123	125	127
2007	489,076	2,177,747	11,900,562	130	133	134
2008	508,248	2,243,945	12,380,225	135	137	139
2009	506,397	2,201,921	12,168,161	134	134	137
2010	522,731	2,276,930	12,530,101	139	139	141

[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
2001-2010

	Per Capita Income			As % of US	
Calendar Year	**PA**	**Mideast Region[a]**	**U.S.**	**PA**	**Mideast Region[a]**
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
2010	41,152	47,293	40,584	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 2006 through 2010.

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			
2006	7.0%	7.8%	7.4%
2007	5.7	6.4	5.7
2008	3.9	1.9	4.0
2009	-0.4	-1.9	-1.7
2010	3.2	3.4	3.0
Manufacturing			
2006	3.7%	2.6%	3.8%
2007	-0.9	-0.1	0.7
2008	1.0	0.5	0.3
2009	-7.7	-7.6	-8.9
2010	3.2	1.6	2.7
Trade[b]			
2006	3.9%	3.8%	4.7%
2007	3.6	4.3	4.1
2008	-0.3	-1.6	-1.6
2009	-4.0	-4.9	-5.7
2010	3.7	3.6	3.0
Finance[c]			
2006	7.2%	15.3%	9.8%
2007	2.4	7.7	4.1
2008	1.9	-4.7	-3.6
2009	-2.8	-14.2	-7.5
2010	0.2	6.1	1.7
Services			
2006	8.2%	8.5%	9.6%
2007	7.7	7.2	7.5
2008	7.4	7.6	7.8
2009	-0.8	-2.2	-3.0
2010	2.5	2.9	3.2
Utilities			
2006	5.5%	12.0%	14.6%
2007	1.8	-1.5	-1.2
2008	9.6	9.0	10.5
2009	-2.4	-1.0	1.9
2010	2.5	4.0	0.5
Construction			
2006	5.3%	6.5%	7.3%
2007	-0.9	0.6	-0.4
2008	-2.9	-3.1	-4.9
2009	-12.0	-9.6	-16.5
2010	0.5	-2.2	-4.8
Mining			
2006	17.7%	16.7%	22.4%
2007	-4.2	-8.1	-3.0
2008	39.7	35.5	43.7
2009	-4.8	-4.8	-12.6
2010	17.1	17.1	3.2

[a] Mideast Region: Delaware, District of Columbia, Maryland, Pennsylvania, New York, and New Jersey.
[b] Wholesale and retail trade.
[c] Finance and insurance.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

The commonwealth's average hourly wage rate of $16.88 for manufacturing and production workers compares below the national average of $18.61 for 2010. The following table presents the average hourly wage rates for 2006 through 2010.

Average Hourly Wages
Production Workers on Manufacturing Payrolls
Pennsylvania and the United States
2006-2010

Calendar Year	PA	US
2006	$ 15.38	$ 16.81
2007	15.48	17.26
2008	15.61	17.75
2009	16.28	18.24
2010	16.88	18.61

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
2001-2010

Year	Market Value[(a)]	Assessed Valuation	Ratio of Assessed Valuation to Market Value[(a)]
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	546,222,770,500	378,011,903,306	69.2
2006	619,788,036,800	393,869,708,825	63.5
2007	633,886,898,100	400,428,104,035	63.1
2008	708,521,506,000	406,426,527,325	57.3
2009	717,475,983,911	431,911,595,146	60.2
2010	753,847,457,900	436,995,393,629	57.9

(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 2011.

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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.

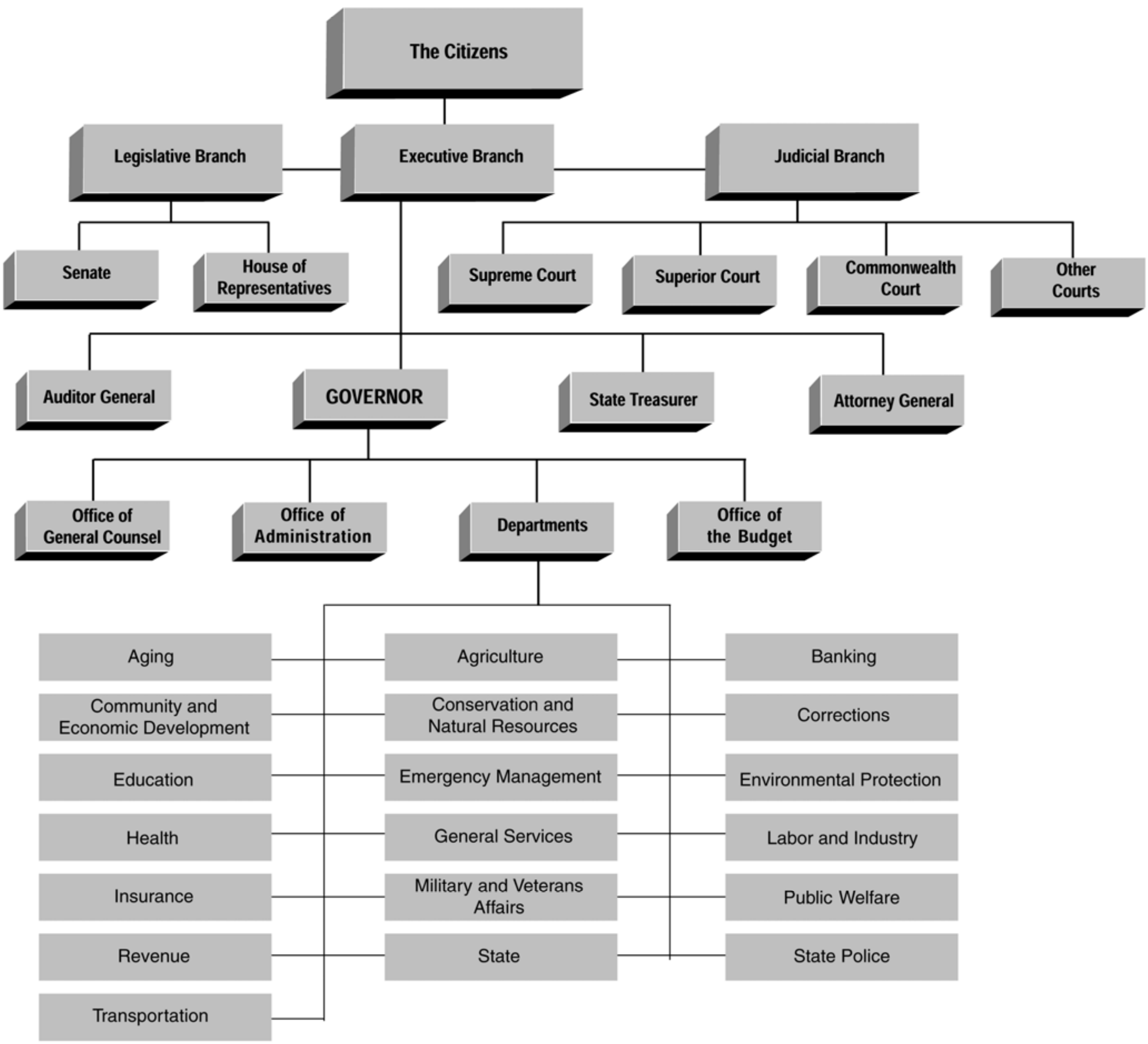
The Auditor General is charged with making audits of completed financial transactions. The Department of the Auditor General is under the Auditor General's direct jurisdiction.

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.

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APPENDIX D

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

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

DTC will act as securities depository for the Bonds. The Bonds 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 Bond certificate will be issued for each maturity of the Bonds, 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 Bonds 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds 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 Bonds 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 Bonds. 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds 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 Bonds 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, Bond 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, 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 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 Bonds; (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 Bonds; (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 Bond, including, without limitation any notice of redemption; or (d) other action taken by DTC or Cede & Co., including the effectiveness of any action taken pursuant to an Omnibus Proxy.

SELECTED
CONSTITUTIONAL PROVISIONS
RELATING TO THE FINANCES
OF THE COMMONWEALTH

Article VIII — TAXATION AND FINANCE

Commonwealth Indebtedness

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

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

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

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

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

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

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

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

Commonwealth Credit Not to be Pledged

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

Municipal Debt Not to be Assumed by Commonwealth

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

Audit

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

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

Gasoline Taxes and Motor License Fees Restricted

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

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

Governor's Budgets and Financial Plan

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

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

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

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

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

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

Appropriations

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

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

Surplus

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

Project “70”

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

Land and Water Conservation and Reclamation Fund

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

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APPENDIX F

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

October 27, 2011

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

Re: Commonwealth of Pennsylvania General Obligation Bonds, First Series and First Refunding Series of 2011

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 $650,000,000 aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, First Series of 2011 (the "First Series Bonds"), and the $175,765,000 aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, First Refunding Series of 2011 (the "First Refunding Series Bonds" and together with the First Series 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 15 and November 15 of each year commencing May 15, 2012 with respect to the First Series Bonds, and payable semi-annually on July 1 and January 1 of each year commencing on January 1, 2012 with respect to the First Refunding Series Bonds, 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 and the State Treasurer (the "Issuing Officials") on October 12, 2011, and October 18, 2011 (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 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 $650,000,000.00 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. If sufficient funds are not appropriated for timely payment of interest on and installments of principal of the Bonds, the Constitution requires the State Treasurer to set apart from the first revenues thereafter received applicable to the appropriate fund, a sum sufficient to pay such interest and installments of principal and to apply said sum to such purposes, and the State Treasurer may be required to set aside and apply such revenues at the suit of the holder of any of the Bonds.

Very truly yours,

Linda Kelly
Attorney General

APPENDIX G
First Series of 2011
and
First Refunding Series of 2011

October 27, 2011

TO THE REGISTERED OWNERS OF THE COMMONWEALTH

OF PENNSYLVANIA GENERAL OBLIGATION BONDS,

FIRST SERIES OF 2011 AND FIRST REFUNDING SERIES OF 2011

Re: Commonwealth of Pennsylvania General Obligation Bonds,
$650,000,000 First Series of 2011 and
$161,575,000 First Refunding Series of 2011 (the "Bonds")

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by the Commonwealth of Pennsylvania (the "Commonwealth") of the above-referenced Bonds. Pursuant to the Section 7 of Article VIII of the Constitution of the Commonwealth and 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, as amended (collectively, the "Act"), the Commonwealth's Governor, State Treasurer and Auditor General (collectively, the "Issuing Officials") adopted bond resolutions on October 12, 2011 and October 18, 2011 (collectively, the "Resolutions"), providing for the issuance of the Bonds.

The Bonds were sold pursuant to a Preliminary Official Statement dated October 12, 2011 and an Official Statement dated October 18, 2011 (collectively, the "Official Statement"). The Bonds are being issued for : (a) $270,000,000 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; (b) $115,000,000 aggregate principal amount of the Bonds is to be allocated to the Department of Community and Economic Development to fund redevelopment assistance projects; (c) $105,000,000 aggregate principal amount of the Bonds is to be allocated to the Department of Transportation to fund transportation assistance projects; (d) $10,000,000 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 projects; (e) $104,000,000 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 (established pursuant to the Pennvest Acts) and applied to the costs of making grants and loans to local governments and, in certain circumstances, to private companies, 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; (f) $46,000,000 aggregate principal amount of the Bonds to be issued for the Pennvest Acts will be deposited into the Pennvest Bond Fund (established pursuant to the Pennvest Acts) and applied to the costs for loans to local governments and authorities to acquire, repair, construct, reconstruct, rehabilitate, extend and improve water supply, storm water control and sewage treatment systems; and (g) $161,575,000 aggregate principal amount of the Bonds to be allocated to advance refunding all or a portion of the Commonwealth's First Series of 2003, Second Series of 2003, First Series of 2004, and Second Series of 2004

The Commonwealth has covenanted that it will make no investment or other use of the proceeds of the Bonds which would cause the Bonds to be "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended, and the rules and regulations thereunder (the "Code"), and that it will comply with the requirements of said Section throughout the term of the Bonds. The Commonwealth has further covenanted that it will comply with the requirements of the Code that must be met after the issuance of the Bonds in order that interest on the Bonds not be included in gross income for federal income tax purposes. Also, the Commonwealth has filed or caused to be filed with the Internal Revenue Service a report of the issuance of the Bonds as required by Section 149(e) of the Code as a condition of the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

As Bond Counsel for the Commonwealth, we have examined the proceedings relating to the authorization and issuance of the Bonds, including among other things: (a) certified copies of the Resolutions; (b) a certificate of the Auditor General as to tax revenues and outstanding debt; (c) an opinion of the Honorable Linda Kelly, Attorney General of the Commonwealth; and (d) certificates of the Commonwealth as to material factual matters, including a certificate of the Commonwealth executed pursuant to the federal income tax laws and regulations applicable to the Bonds, and certificates of the Commonwealth and Wells Fargo Bank, National Association, Philadelphia, Pennsylvania, as Loan and Transfer Agent, with respect to the execution and authentication of the Bonds. In rendering our opinion, we have not been retained to nor have we undertaken to verify the factual matters set forth in such certificates or in the Official Statement by independent investigation and we have assumed that the representations made by the Commonwealth in such certificates, the Official Statement and in the other financing documents are true and correct as of the date hereof. In rendering this opinion, we have also assumed the genuineness of all signatures and the accuracy and completeness of all documents, records and other instruments examined, without undertaking to verify the same by independent investigation.

In rendering our opinion set forth below, we have assumed (i) that all documents, records and other instruments examined by us are genuine, accurate and complete and we have not undertaken to verify the factual matters set forth in any certificates or other documents by independent investigation, (ii) that the signatures on documents and instruments examined by us are original or genuine, and (iii) that all documents submitted to us as copies conform to the originals thereof.

On the basis of the foregoing, we are of the opinion that:

1. The Bonds are valid, binding and enforceable direct 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 or prior redemption.

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

3. The Bonds have been validly authorized, executed, issued and delivered pursuant to all necessary action of the Issuing Officials, enforceable in accordance with their terms.

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

5. Under existing law, as presently enacted and construed, interest on the Bonds is excluded from gross income for Federal income tax purposes. The opinion set forth in the preceding sentence is subject to the condition that the Commonwealth complies with all requirements of the Code and the Regulations that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from gross income for Federal income tax purposes. Failure to comply with any such requirements could cause the interest on the Bonds to be included in gross income for Federal income tax purposes prospectively and/or retroactively to the date of issuance of the Bonds. The Commonwealth has covenanted to comply with all such requirements.

6. Interest on the Bonds is not a specific item of tax preference for purposes of the Federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to certain corporations (as defined for Federal income tax purposes), such interest is taken into account in determining “adjusted current earnings” for the purpose of computing the alternative minimum tax imposed on such corporations.

7. Under the laws of the Commonwealth as enacted and construed on the date hereof, interest on the Bonds is exempt from Pennsylvania personal income tax and corporate net income tax and the Bonds are exempt from personal property taxes in the Commonwealth.

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

Notwithstanding the exclusion of interest on the Bonds from gross income and the exemption of the Bonds and the interest thereon from certain taxes, ownership of the Bonds may result in other Federal, state, local and/or foreign tax consequences to certain taxpayers, including, without limitation, corporations required to include such interest in the calculation and payment of the alternative minimum tax under Section 55 of the Code; certain foreign corporations doing business in the United States that are subject to the Branch Profits Tax imposed under Section 884 of the Code; financial institutions; insurance companies required to include such interest in amounts required to reduce the deductions for loss reserves pursuant to Section 832 of the Code; life insurance companies; S Corporations with accumulated earnings and profits from years in which they were not S corporations; recipients of Social Security or Railroad Retirement benefits; individuals who qualify for or may otherwise qualify for the earned income credit; and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds, or who have paid or incurred certain expenses allocable to the Bonds. We offer no opinion as to such other tax consequences.

With respect to the foregoing opinion, we advise you that the rights of the holders of the Bonds and the enforceability of the Bonds will be subject to and may be limited by (i) applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other similar laws of general application or equitable principles relating to or affecting creditor's rights and remedies or debtor's obligations generally, (ii) general principles of equity, whether considered and applied in a court of law or equity, and (iii) the exercise of judicial discretion in appropriate cases.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement prepared in connection with the sale of the Bonds, and make no representation that we have independently verified the contents of such Official Statement.

We express no opinion herein as to any matter not expressly set forth herein, including Federal, state, local and foreign tax consequences arising with respect to the Bonds other than as expressly set forth in paragraphs 5, 6 and 7 above.

This opinion is expressly limited to the matters stated herein and no opinion is implied or may be inferred beyond the matters expressly stated herein. This opinion is given as of the date hereof and is based upon existing laws, regulations and judicial and administrative decisions. We assume no obligation to update or supplement this opinion to reflect any facts or circumstances which may hereafter come to our attention or any changes in such laws, regulations, or judicial or administrative decisions, any of which could adversely affect a holder of the Bonds.

Very truly yours,

FOX ROTHSCHILD LLP

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AMENDED NOTICE OF SALE
OCTOBER 17, 2011

COMMONWEALTH OF PENNSYLVANIA

AMENDED OFFICIAL NOTICE OF SALE
FOR THE PURCHASE OF
$825,765,000
GENERAL OBLIGATION BONDS
CONSISTING OF:
$650,000,000 FIRST SERIES OF 2011
AND
$175,765,000 FIRST REFUNDING SERIES OF 2011

PURSUANT TO THE RIGHT RESERVED BY IT IN THE NOTICE OF SALE DATED OCTOBER 12, 2011 (THE "NOTICE OF SALE") RELATING TO THE COMMONWEALTH OF PENNSYLVANIA GENERAL OBLIGATION BONDS, FIRST SERIES OF 2011 BONDS AND THE FIRST REFUNDING SERIES OF 2011 BONDS (THE "BONDS"), THE COMMONWEALTH HAS DETERMINED TO SUPPLEMENT AND AMEND THE TERMS OF THE NOTICE OF SALE AS FOLLOWS:

(i) THE AGGREGATE PRINCIPAL AMOUNT OF FIRST REFUNDING SERIES BONDS TO BE ISSUED SHALL BE REVISED TO $165,810,000 SUBJECT TO REVISION AS DESCRIBED IN THE NOTICE OF SALE;

(ii) THERE IS NO AMENDMENT TO THE AGGREGATE PRINCIPAL AMOUNT OF THE FIRST SERIES OF 2011 BONDS;

(iii) NO BID WILL BE CONSIDERED WHICH DOES NOT OFFER TO PURCHASE ALL OF THE FIRST SERIES OF 2011 BONDS AND THE FIRST REFUNDING SERIES OF 2011 BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF $815,810,000;

(iv) THERE IS NO AMENDMENT TO THE BID DATE OR TIME OR PLACE FOR RECEIPT OF BIDS. THE BID DATE SHALL REMAIN OCTOBER 18, 2011; BIDS WILL BE RECEIVED UNTIL 11:00 A.M. VIA PARITY;

(v) NO BID FOR THE BONDS AT A PRICE OF LESS THAN 98½% OF THEIR PAR VALUE, EXCLUSIVE OF ACCRUED INTEREST, WILL BE CONSIDERED.

(vi) THE PROPOSED DATE FOR CLOSING AND DELIVERY OF THE BONDS TO THE SUCCESSFUL BIDDER IS NOT CHANGED AND REMAINS OCTOBER 27, 2011;

(vii) THE OFFICIAL NOTICE OF SALE SHALL BE FURTHER SUPPLEMENTED AS FOLLOWS:

A. MATURITY SCHEDULE

THE FIRST REFUNDING SERIES BONDS SHALL MATURE SERIALLY ON JULY 1 IN THE RESPECTIVE YEARS AND IN THE RESPECTIVE AMOUNTS SET FORTH IN THE FOLLOWING TABLE:

Due July 1	Principal Amount	Due July 1	Principal Amount
2012	$50,000	2018	$25,795,000
2013	50,000	2019	9,480,000
2014	50,000	2020	3,095,000
2015	50,000	2021	45,020,000
2016	23,615,000	2022	33,980,000
2017	24,625,000		

B. FORM OF BID

BIDS MUST BE SUBMITTED IN ACCORDANCE WITH THE NOTICE OF SALE PRIOR TO THE DEADLINE OF 11:00 A.M. EASTERN DAYLIGHT TIME. BIDS MUST BE SUBMITTED ELECTRONICALLY VIA PARITY.

EXCEPT AS AMENDED OR SUPPLEMENTED HEREBY, ALL OF THE TERMS AND CONDITIONS CONTAINED IN THE NOTICE OF SALE CONTINUE IN FULL FORCE AND EFFECT, AND THE COMMONWEALTH RESERVES ALL RIGHTS PREVIOUSLY RESERVED BY IT IN THE NOTICE OF SALE, INCLUDING WITHOUT LIMITATION THE RIGHT TO FURTHER AMEND THE NOTICE OF SALE.

TOM CORBETT
GOVERNOR

ROBERT M. McCORD
STATE TREASURER

JACK WAGNER
AUDITOR GENERAL

OCTOBER 17, 2011

NOTICE OF SALE
$825,765,000*
Commonwealth of Pennsylvania
General Obligation Bonds
$650,000,000* First Series of 2011
And
$175,765,000* First Refunding Series of 2011

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

Tuesday, October 18, 2011 (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 $650,000,000* aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, First Series of 2011 (the "First Series Bonds") and for the purchase of all, but not less than all, of the $175,765,000* aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, First Refunding Series of 2011 (the "First Refunding Series Bonds" and collectively with the First Series Bonds, the "Bonds").

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 Bonds;
2. increase or decrease the principal amount of the First Refunding Series Bonds;
3. adjust the respective par amounts of the First Refunding Series Bonds based on prevailing market conditions at the time of the sale of the Bonds; and
4. determine the appropriate redemption provisions relative Bonds based on prevailing market conditions at the time of the sale of the Bonds.

Changes to the Bonds being offered, if made, will be contained in an Amended Notice of Sale (the "Amended Notice") to be transmitted via the Bond Buyer Wire not later than 4:00 P.M. on the last business day prior to the Bid Date. The Amended Notice shall (i) state the Amended Bid Date (a date not before October 18, 2011) and the time by which bids to purchase the Bonds must be received by the Commonwealth; (ii) state the revised principal amounts; (iii) state the proposed closing date; and (iv) supplement and update the information contained herein to the extent deemed necessary by the Commonwealth.

* Preliminary, subject to change

Security

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

Bond Details

The First Series Bonds and the First Refunding Series Bonds will be dated the date of issuance and delivery, and will bear such rate or rates of interest, payable semiannually on May 15 and November 15 in each year commencing May 15, 2012, with respect to the First Series Bonds, and payable semiannually on January 1 and July 1, in each year commencing on January 1, 2012, with respect to the First Refunding Series Bonds, as shall be fixed by the purchaser in its proposal for the purchase of the First Series Bonds and the First Refunding Series Bonds. The First Series Bonds and the First Refunding Series Bonds shall mature serially on November 15, with respect to the First Series Bonds, and on July 1 with respect to the First Refunding Series Bonds, in the respective years and in the respective amounts as set forth below:

First Series Bonds

Due November 15	Principal Amount*	Due November 15	Principal Amount*
2012	$20,760,000	2022	$31,765,000
2013	21,285,000	2023	33,395,000
2014	22,045,000	2024	35,105,000
2015	22,945,000	2025	36,905,000
2016	23,885,000	2026	38,800,000
2017	24,855,000	2027	40,785,000
2018	26,005,000	2028	42,880,000
2019	27,340,000	2029	45,080,000
2020	28,740,000	2030	47,390,000
2021	30,215,000	2031	49,820,000

First Refunding Series Bonds*

Due July 1	Principal Amount*	Due July 1	Principal Amount*
2012	$50,000	2018	$26,030,000
2013	50,000	2019	9,725,000
2014	50,000	2020	3,350,000
2015	8,270,000	2021	45,295,000
2016	23,830,000	2022	34,270,000
2017	24,845,000		

*Preliminary, subject to change.

Delivery of the Bonds is proposed to occur on October 27, 2011, unless another date is set forth in any Amended Notice (the "Closing Date").

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

Optional Redemption- First Series Bonds

The First Series Bonds maturing in the years 2012 to 2021, inclusive, are not subject to redemption prior to maturity. The First Series Bonds, or portions thereof in integral multiples of $5,000, maturing on and after November 15, 2022, are subject to redemption at the option of the Commonwealth prior to scheduled maturity on and after November 15, 2021, 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.

Optional Redemption- First Refunding Series Bonds

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

Adjustment of Principal Amounts

The principal amount of each serial maturity of the First Refunding Series Bonds is 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 First Refunding Series 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 First Refunding Series 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 Bonds of each maturity, subject to the following limitations:

(i) all Bonds of the same maturity date must bear the same rate of interest and no one Bonds 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 Issue Price for Bonds of any maturity must be greater than 98½% of that maturity's par value.

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

Bond Insurance

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

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

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

Electronic Bidding Procedure

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

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

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

Warnings Regarding Electronic Bids

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

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

Reoffering and Sale of Bonds to Public

Within thirty minutes after notification of award of the Bonds the successful bidder (the "Purchaser") shall provide to the Commonwealth the initial offering price to the public (excluding bond houses and brokers or similar persons or organizations acting as wholesalers or underwriters) for each maturity of the Bonds (the "Initial Issuing Prices") and certain other information to enable the Commonwealth to compute the yield on the Bonds for federal income tax law purposes. The Purchaser will be required to provide a certificate regarding the issue price of the Bonds prior to settlement for the Bonds in form satisfactory to the Commonwealth and Bond Counsel establishing that the Purchaser has made a bona fide public offering of all of the Bonds at the Initial Issuing Prices and that, as of the date of the award of the Bonds, the Purchaser reasonably expected that a substantial amount (at least 10 percent) of each maturity of the Bonds would be sold to the public at the Initial Issuing Prices with any exceptions noted. **(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 Bonds at prices not greater than the Initial Issuing Prices, offer the Bonds only pursuant to the Official Statement and only in jurisdictions where the offer is legal, and deliver a copy of the Official Statement to each person or entity that purchases the Bonds from the Purchaser as required by Securities and Exchange Commission Rule 15c2-12. The Purchaser shall abide by all rules of the Municipal Securities Rulemaking Board ("MSRB") in connection with the issuance and sale of the Bonds, including the delivery to the MSRB of the Official Statement and any advance refunding documents.

Basis of Awards

Award of the Bonds will be made on or before 5:00 P.M. Eastern Daylight Time, on October 18, 2011 or, in the event of the announcement of an Amended Bid Date, the date specified in the Amended Notice. The Bonds will be sold to the bidder making a bid conforming to the terms of the offering which, on the basis of the lowest net effective interest rate for the Bonds, determined in the manner hereinafter stated, is the best bid, subject to the right of the undersigned in their sole discretion to reject any and all bids. The net effective interest rate for the Bonds shall be the interest rate determined on a true interest cost ("TIC") basis by doubling the semi-annual interest rate, compounded semi-annually, necessary to discount the debt service payments to the date of delivery of the Bonds, October 27, 2011, unless otherwise announced in an amended notice, to the price bid, including interest accrued to the date of delivery, if any. In the event of more than one bid specifying such lowest rate, the Bonds will be awarded to the bidder whose bid is selected by lot from among all such lowest bids.

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

Good Faith Deposit

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

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

The Preliminary Official Statement dated October 12, 2011, issued with respect to the Bonds (the "Preliminary Official Statement"), has been deemed final by the Commonwealth as of its date for purposes of the Rule, except for the omission of information as permitted by the Rule, but is subject to revision, amendment, and completion in the final Official Statement (hereinafter the "Official Statement") to be prepared with respect to the Bonds. A reasonable number of copies (not to exceed 1,000) of the Official Statement, to be dated as of a date prior to settlement, will be furnished to the Purchaser within seven business days after the sale date. Copies of the Official Statement in excess of 1,000 will be furnished at the request of the Purchaser at its own expense. The Purchaser will be required to provide pricing information necessary for the Commonwealth to complete the Official Statement.

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

CUSIP Numbers

CUSIP numbers will be obtained by the Commonwealth and the CUSIP numbers will be printed on the Bonds, provided, however, that incorrect numbers shall not constitute grounds for a Purchaser of the Bonds to refuse delivery thereof.

Delivery of Bonds

Bond certificates will be delivered through Wells Fargo Bank, N.A. as the Loan and Transfer Agent to DTC using DTC’s Fast Automated Security Transfer (FAST) System. Payment for the Bonds must be made by wire in immediately available funds for credit at Wells Fargo Bank, National Association, Loan and Transfer Agent, in Philadelphia, 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 Bonds if the Commonwealth shall fail to tender the Bonds for delivery within 60 days from the date herein fixed for the receipt of the bids, and in such event, the Purchaser shall only be entitled to the return of its Deposit, without interest, and shall have no right of action against the Commonwealth.

Legal Opinions

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

Closing Documents

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

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

Copies of Documents

Additional information and copies of the Preliminary Official Statement may be obtained from the Loan and Transfer Agent, Wells Fargo Bank, National Association, Philadelphia, Pennsylvania (Telephone 215-861-9418) 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 website, http://www.budget.state.pa.us.

TOM CORBETT
Governor

JACK WAGNER
Auditor General

ROBERT M. McCORD
State Treasurer

Dated: October 12, 2011

COMMONWEALTH OF PENNSYLVANIA
GENERAL OBLIGATION BONDS
$650,000,000 FIRST SERIES OF 2011
AND
$175,765,000 FIRST REFUNDING SERIES OF 2011

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, First Series of 2011 in the aggregate principal amount of $650,000,000 and First Refunding Series of 2011 in the aggregate principal amount of $175,765,000 (collectively the "2011 First Series & First Refunding Series Bonds") The undersigned officer __________________, 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:

Defined Terms. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Issuer's Tax Certificate of even date with respect to the 2011 First Series & First Refunding Series Bonds.

1. **Issue Price.**

(a) The aggregate Initial Public Offering Price of all of the 2011 First Series & First Refunding Series Bonds is $_______________ (which represents the aggregate principal amount of the 2011 First Series & First Refunding Series Bonds of $825,765,000 plus original issue premium of $___________ plus pre-issuance accrued interest of $______).

(b) As of October____, 2011, which is the date on which we agreed to purchase the 2011 First Series & First Refunding Series Bonds (the "Sale Date"), the Underwriters reasonably expected to offer all of the 2011 First Series & First Refunding Series Bonds to the general public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) (the "Public") in a bona fide public offering at prices not higher than, or, in the case of obligations sold on a yield basis, at yields not lower than, those listed for each maturity on Schedule A hereto (the "Initial Offering Prices") and the Underwriters reasonably expected that the first prices at which at least 10% of each maturity would be sold by the Underwriters to the Public were the prices not higher than, or, in the case of obligations sold on a yield basis, at yields not lower than the Initial Offering Prices.

(c) All of the 2011 First Series & First Refunding Series Bonds have actually been offered to the Public in a bona fide public offering at prices not higher than, or, in the case of obligations sold on a yield basis, at yields not lower than, the Initial Offering Prices.

(d) The Underwriters have no reason to believe that any of the Initial Public Offering Prices of the 2011 First Series & First Refunding Series Bonds did not represent an expected fair market value of the 2011 First Series & First Refunding Series Bonds as of the Sale Date.

(e) The Initial Public Offering Price for the 2011 First Series & First Refunding Series Bonds is not more than a fair market value of the 2011 First Series & First Refunding Series Bonds as of the Sale Date.

2. **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 2011 First Series & First Refunding Series Bonds.**

3. **Miscellaneous.**

(a) The Underwriters have not made or received and will not make or receive any payment with respect to its acquisition of the 2011 First Series & First Refunding Series Bonds or the investment of the proceeds thereof which it has not disclosed to the Issuer and Fox Rothschild LLP, as bond counsel ("Bond Counsel").

(b) We understand that the foregoing information will be relied upon by the Issuer with respect to certain representations that are set forth in the Tax Certificate and by Bond Counsel in rendering its opinion in connection with the issuance of the 2011 First Series & First Refunding Series Bonds.

Dated: October ___, 2011

___________________________ as Representative

By:____
Authorized Officer

•

October ___, 2011

Commonwealth of Pennsylvania

Wells Fargo Bank National Association
Loan and Transfer Agent of the
Commonwealth of Pennsylvania

Re: Commonwealth of Pennsylvania
General Obligation Bond
First Series of 2011 and First Refunding Series of 2011

Ladies and Gentlemen:

We hereby acknowledge receipt of $650,000,000 aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds First Series of 2011 and $175,765,000 aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds First Refunding Series of 2011 (collectively the "Bonds"), numbered and maturing as set forth in the attached Schedule A. The Bonds are registered in the name of Cede & Co., as nominee for The Depository Trust Company, securities depository for the Bonds, with whom the Bonds have been deposited.

The undersigned also acknowledges receipt of electronic-only copies of the Official Statement dated October ___, 2011. with respect to the Bonds, together with one manually signed copy of the respective opinions of the Honorable Linda Kelly, Attorney General, and of Fox Rothschild LLP, Bond Counsel, which opinions are dated the date hereof. Such Official Statements and opinions have been received in full satisfaction of the number of copies thereof to be furnished by the Commonwealth to us, as the Purchaser (the "Purchaser"). without expense to the Purchaser.

Very truly yours,

____
____

By:______________________________

Title:____________________________

SCHEDULE A
COMMONWEALTH OF PENNSYLVANIA
GENERAL OBLIGATION BONDS
$650,000,000 FIRST SERIES OF 2011
AND
$175,765,000 FIRST REFUNDING SERIES OF 2011

Numbers	Maturity	Principal Amount	Rate	CUSIP

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