NEW ISSUE – BOOK-ENTRY ONLY

Ratings: Moody's: Aa1
Fitch: AA+
Standard & Poor's: (See "Ratings" herein)

In the opinion of Stradley Ronon Stevens & Young, LLP, Philadelphia, Pennsylvania, Bond Counsel, assuming continuing compliance by the Commonwealth with certain covenants to comply with provisions of the Internal Revenue Code of 1986, as amended (the "Code") and any applicable regulations thereunder, interest on the Third Series A Bonds and Third Series C Bonds is not includable in gross income under Section 103(a) of the Code and interest on the Third Series A Bonds and Third Series C Bonds is not an item of tax preference or included in current earnings for purposes of the federal individual and corporate alternative minimum taxes. See "TAX EXEMPTION AND OTHER TAX MATTERS" in this Official Statement. Other provisions of the Code may affect purchasers and holders of the Third Series A Bonds and Third Series C Bonds. See "Federal Income Tax Treatment of Third Series A Bonds and Third Series C Bonds" herein for a brief description of these provisions. Interest on the Third Series B Bonds is includible in gross income for federal income tax purposes.

Under the laws of the Commonwealth of Pennsylvania, the Bonds and interest on the Bonds shall be free from taxation for State and local purposes within the Commonwealth of Pennsylvania, but this exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the Bonds or the interest thereon. Under the laws of the Commonwealth of Pennsylvania, profits, gains or income derived from the sale, exchange or other disposition of the Bonds shall be subject to State and local taxation within the Commonwealth of Pennsylvania For a more complete description, see "TAX EXEMPTION AND OTHER TAX MATTERS" herein.

$650,000,000
Commonwealth of Pennsylvania
General Obligation Bonds
Third Series of 2010
consisting of

$171,895,000	**$466,605,000**	**$11,500,000**
Third Series A of 2010	**Third Series B of 2010**	**Third Series C of 2010**
(Tax Exempt)	**(Federally Taxable – Build America Bonds – Issuer Subsidy)**	**(Tax Exempt)**

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

The Third Series A Bonds, the Third Series B Bonds and the Third Series C Bonds are collectively referred to herein as the "Bonds." The Bonds will be issued only in book-entry form initially registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Interest on the Bonds will be payable semi-annually on January 15 and July 15, commencing July 15, 2011. Wells Fargo Bank, National Association, Pittsburgh, Pennsylvania, is the Loan and Transfer Agent for the Bonds. Principal, interest and redemption premium, if any, on the Bonds are payable to Cede & Co. See "THE BONDS – Book-Entry Only System."

The Bonds are subject to redemption as set forth herein. See "THE BONDS – Optional Redemption", "THE BONDS – Extraordinary Optional Redemption" and "THE BONDS – Extraordinary Redemption" herein. The Bonds are direct and general obligations of the Commonwealth and the full faith and credit of the Commonwealth are pledged for the payment of principal of and interest on the Bonds.

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

The Commonwealth has elected to designate the Third Series B Bonds as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 and to receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on the Second Series B Bonds. THE HOLDERS OF THE THIRD SERIES B BONDS ARE NOT ENTITLED TO A TAX CREDIT AS A RESULT OF OWNERSHIP OF THE THIRD SERIES B BONDS. SEE "THE BONDS – Build America Bonds" herein.

The Bonds are offered when, as and if issued, and are subject to the receipt of the legal opinions of the Attorney General of the Commonwealth of Pennsylvania and of Stradley Ronon Stevens & Young, LLP, Philadelphia, Pennsylvania, Bond Counsel. The Commonwealth expects that the Bonds will be available in definitive form for delivery in New York, NY, on or about December 23, 2010.

Dated: December 15, 2010

$650,000,000
Commonwealth of Pennsylvania
General Obligation Bonds
Third Series of 2010
consisting of

$171,895,000 Third Series A of 2010
(Tax Exempt)
MATURITY SCHEDULE

(Base CUSIP Number: 70914P)

Due July 15	Third Series A of 2010 Principal Amount	Interest Rate	Yield or Price	CUSIP Number
2012	$21,030,000	5.000%	0.700%	NW8
2013	22,110,000	5.000	1.000	NX6
2014	23,240,000	5.000	1.390	NY4
2015	24,435,000	5.000	1.710	NZ1
2016	25,685,000	5.000	2.000	PA4
2017	27,005,000	5.000	2.400	PB2
2018	28,390,000	5.000	2.770	PC0

$466,605,000 Third Series B of 2010
(Federally Taxable – Build America Bonds – Issuer Subsidy)
MATURITY SCHEDULE

(Base CUSIP Number: 70914P)

Due July 15	Third Series B of 2010 Principal Amount	Interest Rate	Yield or Price	CUSIP Number
2019	$29,685,000	4.050%	4.100%	PD8
2020	30,920,000	4.250	4.300	PE6
2021	32,240,000	4.550	4.600	PF3
2022	33,665,000	4.750	4.800	PG1
2023	35,225,000	5.000	5.000	PH9
2024	36,955,000	5.050	5.100	PJ5

$267,915,000[(1)] 5.85% Term Bond due July 15, 2030 priced
at 99.879% to yield 5.86% (CUSIP: 70914P PQ9)

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

$11,500,000 Third Series C of 2010
(TAX EXEMPT)

MATURITY SCHEDULE

(Base CUSIP Number: 70914P)

Due July 15	Third Series C of 2010 Principal Amount	Interest Rate	Yield or Price	CUSIP Number
2012	$470,000	0.600%	0.650%	PR7
2013	480,000	3.000	1.050	PS5
2014	490,000	3.000	1.450	PT3
2015	500,000	3.000	1.750	PU0
2016	510,000	3.000	2.000	PV8
2017	520,000	3.000	2.450	PW6
2018	535,000	3.000	2.800	PX4
2019	550,000	3.000	3.200	PY2
2020	565,000	3.500	3.500	PZ9
2021	585,000	4.000	3.650	QA3
2022	600,000	4.000	3.800	QB1
2023	625,000	4.000	4.000	QC9
2024	645,000	4.125	4.200	QD7
2025	670,000	4.300	4.400	QE5
2026	695,000	4.500	4.530	QF2
2027	720,000	4.500	4.630	QG0
2028	750,000	4.625	4.730	QH8
2029	780,000	4.750	4.830	QJ4
2030	810,000	4.750	4.870	QK1

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THE ISSUING OFFICIALS

Governor ....*EDWARD G. RENDELL*
State Treasurer ....*ROBERT M. McCORD*

OFFICE OF THE BUDGET

Secretary .... *MARY A. SODERBERG*

Attorney General of the Commonwealth of Pennsylvania:

Tom Corbett

Bond Counsel:

Stradley Ronon Stevens & Young LLP
Philadelphia, Pennsylvania

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

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

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

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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.................................. $650,000,000 Commonwealth of Pennsylvania, General Obligation Bonds, consisting of $171,895,000 Third Series A of 2010 (the "Third Series A Bonds"), $466,605,000 Third Series B of 2010 (the "Third Series B Bonds") and $11,500,000 Third Series C of 2010 (the "Third Series C Bonds" and collectively with the Third Series A Bonds and the Third Series B 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:

<u>Purpose</u>	Principal <u>Amount</u>
Capital Facilities Projects	$560,825,000
Pennvest Acts Projects..	$49,400,000
Growing Greener Projects	$19,500,000
Pennworks Projects (Grants)	$8,775,000
Pennworks Projects (Loans)	$11,500,000

Redemption............................. The Bonds are subject to varying degrees of redemption provisions specific to each series of Bonds as set forth herein.
See "THE BONDS – Redemption Provisions."

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

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

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

Legal Opinions .... Stradley Ronon Stevens & Young, Bond Counsel.
Tom Corbett, Attorney General of the Commonwealth of Pennsylvania.

Bond Ratings .... Moody's Investors Service – Aa1
Fitch Ratings – AA+
Standard and Poors's Ratings Services – No ratings request (See "Ratings.")

Official Statement

$650,000,000
Commonwealth of Pennsylvania
General Obligation Bonds

$171,895,000 Third Series A of 2010
$466,605,000 Third Series B of 2010
$11,500,000 Third Series C of 2010

INTRODUCTION

This Official Statement of the Commonwealth of Pennsylvania (the "Commonwealth"), including the cover page and appendices, presents certain information in connection with the issuance of $650,000,000 aggregate principal amount of the Commonwealth's general obligation bonds consisting of $171,895,000 aggregate principal amount of (Tax-Exempt) Commonwealth of Pennsylvania General Obligation Bonds, Third Series A of 2010 (the "Third Series A Bonds"), $466,605,000 aggregate principal amount of (Federally Taxable – Build America Bonds – Issuer Subsidy) Commonwealth of Pennsylvania General Obligation Bonds, Third Series B of 2010 (the "Third Series B Bonds"), and $11,500,000 aggregate principal amount of (Tax-Exempt) Commonwealth of Pennsylvania General Obligation Bonds, Third Series C of 2010" (the "Third Series C Bonds" and collectively with the Third Series A Bonds and the Third Series B Bonds, the "Bonds").

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

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

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

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

The Preliminary Official Statement noted that due to the recent enactment of Act 120 of 2010, the balance of the discussion under "Other State-Related Obligations-Pensions and Retirement Systems – General Information" (the "General Information Subsection") had not yet been updated to reflect the impact of Act 120 of 2010. The General Information Subsection in this final Official Statement set forth below has been updated to reflect the impact of Act 120 of 2010, and accordingly varies from the discussion presented in the Preliminary Official Statement.

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THE BONDS

Description of the Bonds

The Bonds will be dated the date of issuance and delivery, will bear interest initially from such date, at the rate per annum for each maturity as specified on the cover page hereof, will be payable semi-annually on each of January 15 and July 15, commencing July 15, 2011, calculated on the basis of a 360-day year of twelve 30-day months, and will mature in the amounts and on the dates as set forth on the cover page hereof.

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

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

Whenever the due date for payment of interest on or principal of the Bonds or the date fixed for redemption of any Bond shall be a Saturday, a Sunday, a legal holiday or a day on which banks in the Commonwealth are required or authorized by law (including by executive order) to close, then payment of such interest, principal or redemption price need not be made on such date, but may be made on the next succeeding day which is not a Saturday, a Sunday, a legal holiday, 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.

Build America Bonds

The Commonwealth has elected to designate the Third Series B Bonds as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 ("ARRA") and to receive payments ("Subsidy Payments") from the United States Treasury in connection therewith. Pursuant to ARRA, the Commonwealth is to receive a Subsidy Payment from the United States Treasury, contemporaneously with each Interest Payment Date (each July 15 and January 15 beginning July 15, 2011) for the Third Series B Bonds, equal to 35% of the interest payable on the Third Series B Bonds on such date. The Internal Revenue Code of 1986, as amended (the "Code") imposes requirements on the Third Series B Bonds that the Commonwealth must continue to meet after the Third Series B Bonds are issued in order to receive the Subsidy Payments. Such requirements generally relate to the way that proceeds of the Third Series B Bonds must be invested and ultimately used. If the Commonwealth does not meet such requirements or make timely application for payment thereof, it is possible that the Commonwealth may not receive the Subsidy Payments. The United States Treasury is also permitted to net the Subsidy Payments against other liabilities of the Commonwealth. The Subsidy Payments do not constitute a full faith and credit guarantee of the United States of America, but are required to be paid by the United States Treasury under ARRA. If the Subsidy Payments from the United States Treasury are reduced or eliminated, the Third Series B Bonds are subject to extraordinary optional redemption. See "Extraordinary Optional Redemption-Third Series B Bonds." **As a result of the Commonwealth's election to receive the Subsidy Payments, no tax credits will be available to holders of the Third Series B Bonds under Section 54AA(a) of the Code.**

Redemption Provisions

<u>Third Series A Bonds</u>

Optional Redemption

The Third Series A Bonds maturing in the years 2012 to 2020, inclusive, are not subject to redemption prior to maturity. The Third Series A Bonds, or portions thereof in integral multiples of $5,000, maturing on and after July 15, 2021, are subject to redemption at the option of the Commonwealth prior to scheduled maturity on and after July 15, 2020, as a whole or in part (and if in part, within one or more maturities) at any time and from time to time, in any order of maturity determined by the Commonwealth and by lot within a maturity in such manner as the Commonwealth in its discretion may determine, on at least 30 days' (but not more than 60 days') notice, at a redemption price equal to par (100% of stated principal amount) plus accrued interest to the date fixed for redemption.

Notice of Redemption

Notice of any such 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 Third Series A Bonds to be redeemed are registered at the close of business on the fifth (5th) 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 Third Series A Bonds, or portions thereof, called for redemption shall accrue after the date fixed for redemption, and the registered holders of the Third Series A 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 Third Series A Bonds, the Loan and Transfer Agent shall cause copies of the original redemption notice to be sent by any one of facsimile transmission, or overnight delivery service, or certified mail with return receipt requested (or other similar means that can provide evidence of receipt) to all registered securities depositories then in the business of holding obligations similar to the Third Series A 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.

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

Third Series B Bonds

Optional Redemption

The Third Series B Bonds maturing in the years 2012 to 2020, inclusive, are not subject to redemption prior to maturity. The Third Series B Bonds, or portions thereof in integral multiples of $5,000, maturing on and after July 15, 2021, are subject to redemption at the option of the Commonwealth prior to scheduled maturity on and after July 15, 2020, as a whole or in part (and if in part, within one or more maturities) at any time and from time to time, in any order of maturity determined by the Commonwealth and pro-rata within a maturity in such manner as the Commonwealth in its discretion may determine, on at least 30 days' (but not more than 60 days') notice, at a redemption price equal to par (100% of stated principal amount) plus accrued interest to the date fixed for redemption.

Extraordinary Optional Redemption

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

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

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

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

"Treasury Rate" means, with respect to any redemption date for any particular Third Series B Bond, the greater of:

(i) the yield to maturity as of such redemption date of the United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to maturity; provided, however, that if the period from the redemption date to maturity is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used; all as will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the Commonwealth at the Commonwealth’s expense and such determination shall be conclusive and binding on the owners of the Third Series B Bonds, or

(ii) the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue (defined below), assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price (defined below), as calculated by the Designated Investment Banker (defined below).

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

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

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the Commission.

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

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

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

Mandatory Redemption

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

Year	Principal Amount
2025	$38,860,000
2026	$40,930,000
2027	$43,170,000
2028	$45,600,000
2029	$48,240,000
2030*	$51,115,000

* maturity

Notice of Redemption

Notice of any such 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 Third Series B Bonds to be redeemed are registered at the close of business on the fifth (5th) 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 Third Series B Bonds, or portions thereof, called for redemption shall accrue after the date fixed for redemption, and the registered holders of the Third Series B 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 Third Series B Bonds, the Loan and Transfer Agent shall cause copies of the original redemption notice to be sent by any one of facsimile transmission, or overnight delivery service, or certified mail with return receipt requested (or other similar means that can provide evidence of receipt) to all registered securities depositories then in the business of holding obligations similar to the Third Series B 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.

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

DTC Procedures

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

Third Series C Bonds

Optional Redemption

The Third Series C Bonds maturing in the years 2012 to 2020, inclusive, are not subject to redemption prior to maturity. The Third Series C Bonds, or portions thereof, in integral multiples of $5,000 maturing on and after July 15, 2021, are subject to redemption at the option of the Commonwealth prior to scheduled maturity on and after July 15, 2020, as a whole or in part (and if in part, with one or more maturities) at any time and from time to time, in any order of maturity and by lot within a maturity in such a manner as the Commonwealth in its discretion may determine, on notice of at least 30 days (but not more than 60 days), at a redemption price equal to par (100% of stated principal amount) plus accrued interest thereon to the date fixed for redemption.

Extraordinary Redemption

The Third Series C Bonds are subject to extraordinary redemption at the direction of the Commonwealth, at the respective redemption prices hereinafter specified, (a) in part, in an aggregate principal amount not in excess of $3,450,000.00, on March 1, 2012, and (b) in whole or in part, on March 1, 2014, but in any such case only if and to the extent the Commonwealth determines that such redemption is required under Section 149(f) of the Internal Revenue Code of 1986, as amended (the "Code"), in order to maintain the status of the Third Series C Bonds as obligations the interest on which is excludable from the gross income of the owners thereof for federal income tax purposes. Any such redemption in part shall be in integral multiples of $5,000 and the Third Series C Bonds or portions thereof to be redeemed shall be selected on a pro rata basis from among each maturity of the Third Series C Bonds and from within a maturity as selected by lot, unless the Commonwealth determines that another method of selection of Third Series C Bonds for redemption is required in order to achieve compliance with such section of the Code, in which event the Commonwealth reserves the right to select Third Series C Bonds for redemption from among such maturities and in such principal amounts per maturity as it may determine in its discretion, and from within a maturity as selected by lot. Any such extraordinary redemption shall be upon at least 30 days, and not more than 60 days, prior written notice. The redemption price for Third Series C Bonds to be redeemed under this provision on March 1, 2012 shall be 106% of the principal amount of the Third Series C Bonds to be redeemed, plus accrued interest to the redemption date. The redemption price for Third Series C Bonds to be redeemed under this provision on March 1, 2014 shall be 104% of the principal amount of the Third Series C Bonds to be redeemed, plus accrued interest to the redemption date.

Notice of Redemption

Notice of any such 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 Third Series C Bonds to be redeemed are registered at the close of business on the fifth (5th) 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 Third Series C Bonds, or portions thereof, called for redemption shall accrue after the date fixed for redemption, and the registered holders of the Third Series C 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 Third Series C Bonds, the Loan and Transfer Agent shall cause copies of the original redemption notice to be sent by any one of facsimile transmission, or overnight delivery service, or certified mail with return receipt requested (or other similar means that can provide evidence of receipt) to all registered securities depositories then in the business of holding obligations similar to the Third Series C 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.

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

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"), Act No. 2004-218, approved November 30, 2004 (the "Pennworks Act"); the Water and Wastewater Treatment Project Bond Act, Act No. 2004-10, approved February 12, 2004 (the "Water and Wastewater Treatment Project Bond Act" and collectively with the Pennworks Act, the "Pennworks Acts"); and a constitutional referendum question approved by the voters of the Commonwealth on April 27, 2004 (the "Pennworks Referendum"); the Growing Greener Environmental Stewardship and Watershed Protection Enhancement Authorization Act, Act No. 2005-1, approved April 13, 2005 (the "Growing Greener Environmental Stewardship and Watershed Protection Enhancement Authorization Act "); Act No. 2005-45, approved July 13, 2005 (collectively with the Growing Greener Environmental Stewardship and Watershed Protection Enhancement Authorization Act, the "Growing Greener II Acts"); a constitutional referendum question approved by the voters of the Commonwealth on May 17, 2005 (the "Growing Greener Referendum"); resolutions adopted by the Governor and the State Treasurer (the "Issuing Officials") on December 9, 2010, and December 15, 2010 (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, 2010
(In Millions)

Average Annual Tax Revenues Fiscal 2005-2010	$ 32,605.0
Times 1.75	57,058.75
Less: Net Debt Outstanding[(b)]	8,553.4
Debt Issuable Within Limit	$ 48,505.4

(a) As certified by the Auditor General on September 1, 2010 (Appendix A).
(b) After credit for refunded debt.

The capital debt authorizations for the various categories of capital facilities projects is shown in Table 2 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	$ 8,993.5	$ 22,557.8	$ 22,301.8
Furniture and Equipment	1,243.6	426.5	817.1	817.1
Transportation Assistance	10,724.1	3,092.8	7,631.3	7,557.2
Redevelopment Assistance	36,697.3	2,974.0	33,723.3	33,622.5
Community Colleges	35.8	28.0	7.8	7.8
Highway and Highway Bridge	24,186.9	2,412.5	21,774.4	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	$ 18,593.1	$ 87,002.5	$ 86,441.6

[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.

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	$ 890.0	$ 0.0	$ 890.0	$ 634.0
Furniture and Equipment	25.0	0.0	25.0	25.0
Transportation Assistance	212.0	0.0	212.0	137.9
Redevelopment Assistance	225.0	0.0	225.0	124.3
Flood Control	35.0	0.0	35.0	35.0
Highway	0.0	0.0	0.0	0.0
Bridge	200.0	0.0	200.0	70.0
Total	$ 1,587.0	$ 0.0	$ 1,587.0	$ 1,026.2

[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.

Upon issuance of $560.8 million aggregate principal amount of the Bonds under the Capital Budget, $1,026.2 million principal amount of debt will remain authorized and unissued thereunder.

The Pennvest Acts authorized the issuance of $400.0 million aggregate principal of debt for the purpose of making grants and loans for the acquisition, construction, improvement, expansion, extension, repair or rehabilitation of all or part of a project for the improvement of water supply and sewage treatment systems. See “USE OF PROCEEDS-Pennvest.” To date, bonds in the principal amount of $145 million have been issued pursuant to the authority of the

Pennvest Acts. Upon the issuance of $49.4 million of the Bonds pursuant to the Pennvest Acts, $205.6 million principal amount of debt will remain authorized and unissued thereunder.

The Pennworks Acts authorized the issuance of $250.0 million aggregate principal of debt for the purpose of making grants and loans for construction, expansion or improvement of water and wastewater infrastructure, including water supply and sewage treatment systems. See “USE OF PROCEEDS - Pennworks.” To date, $191.0 million principal amount of bonds have been issued pursuant to the authority of the Pennworks Acts.   Upon the issuance of $20.275 million of the Bonds pursuant to the Pennworks Act, $38.725 million principal amount of debt will remain authorized and unissued thereunder.

The Growing Greener II Acts authorized the issuance of $625.0 million aggregate principal of debt for the purpose of the maintenance and protection of the environment, open space and farmland preservation, watershed protection, abandoned mine reclamation, acid mine drainage remediation and other environmental initiatives. See “USE OF PROCEEDS-Growing Greener.” To date, bonds in the principal amount of $484.5 million have been issued pursuant to the authority of the Growing Greener II Acts. Upon the issuance of $19.5 million of the Bonds pursuant to the Growing Greener II Acts, $121.0 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) $560,825,000 aggregate principal amount of the Bonds to provide for the construction, acquisition and major rehabilitation of capital facilities projects as described below under “Capital Facilities”;

(ii) $49,400,000 aggregate principal amount of the Bonds to provide for the making grants and loans for the acquisition, construction, improvement, expansion, extension, repair or rehabilitation of all or part of a project for the improvement of water supply and sewage treatment systems “Pennvest”;

(iii) $20,275,000 aggregate principal amount of the Bonds to provide for Pennworks Acts loans described below under “Pennworks Acts”; and

(iv) $19,500,000 aggregate principal amount of the Bonds to provide for maintenance and protection of the environment, open space and farmland preservation, watershed protection, abandoned mine reclamation, acid mine drainage remediation and other environmental initiatives as described below under “Growing Greener”.

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

Capital Facilities

A portion of the proceeds of the Bonds will be deposited into the Capital Facilities Fund and applied to defray the costs of issuance of the Bonds and the financial costs of various capital facilities projects of the Commonwealth. Of the $560,825,000 aggregate principal amount of the Bonds issued for capital facilities: (i) $255,975,000 aggregate principal amount of the Bonds is to be allocated to the Department of General Services and used to pay for the construction and major rehabilitation of public buildings for the Commonwealth and its institutions; (ii) $100,750,000 aggregate principal amount of the Bonds is to be allocated to the Department of Community and Economic Development to fund redevelopment assistance projects; (iii) $74,100,000 aggregate principal amount of the Bonds is to be allocated to the Department of Transportation to fund transportation assistance projects; and (iv) $130,000,000 aggregate principal amount of the Bonds is to be allocated to the Department of Transportation to fund bridge projects. Pending application to the above purposes, the proceeds of the Bonds allocated to these purposes will be held by the State Treasurer in the Capital Facilities Fund and invested in accordance with applicable state and federal laws.

Pennvest

A portion of the proceeds of the Bonds is dedicated to the purposes of the Pennvest Acts and to pay the costs of issuance of the Bonds allocated to such purposes. The proceeds from $49,400,000 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. Pending application to the above purposes, the proceeds of the Bonds allocated to these purposes will be held by the State Treasurer in the Water and Sewer Systems Assistance Bond Fund and invested in accordance with applicable state and federal laws.

Growing Greener Projects

A portion of the proceeds of the Bonds is dedicated to the purposes of the Growing Greener II Acts and to pay the costs of issuance of the Bonds allocated to such purposes. The proceeds from $19,500,000 aggregate principal amount of the Bonds to be issued for the Growing Greener II Acts will be deposited into the Growing Greener Bond Fund (established pursuant to the Growing Greener II Acts) and applied to the costs of maintenance and protection of the environment, open space and farmland preservation, watershed protection, abandoned mine reclamation, acid mine drainage remediation and other environmental initiatives. Pending application to the above purposes, the proceeds of the Bonds allocated to these purposes will be held by the State Treasurer in the Growing Greener Bond Fund and invested in accordance with applicable state and federal laws.

Pennworks Projects (Grants)

A portion of the proceeds of the Third Series B Bonds is dedicated to the purposes of the Pennworks Acts and to pay the costs of issuance of the Third Series B Bonds allocated to such purposes. The proceeds from $8.775 million aggregate principal amount of the Third Series B Bonds to be issued for the Pennworks Acts will be deposited into the Water Supply and Wastewater Treatment Fund (established pursuant to the Pennworks Acts) and applied to defray the financial costs to making grants to local governments and authorities for construction, expansion or improvement of water and wastewater infrastructure, including water supply and sewage treatment systems. Pending application to the above purposes, the proceeds of the Third Series B Bonds allocated to these purposes will be held by the State Treasurer in the Water Supply and Wastewater Treatment Fund and invested in accordance with applicable state and federal laws.

Pennworks Projects (Loans)

The proceeds of the Third Series C Bonds are dedicated to the purposes of the Pennworks Acts and to pay the costs of issuance of the Third Series C Bonds allocated to such purposes. The proceeds from $11.5 million aggregate principal amount of the Third Series C Bonds to be issued for the Pennworks Acts will be deposited into the Water Supply and Wastewater Treatment Fund (established pursuant to the Pennworks Acts) and applied to defray the financial costs to making loans to local governments and authorities and certain private organizations for construction, expansion or improvement of water and wastewater infrastructure, including water supply and sewage treatment systems. Pending application to the above purposes, the proceeds of the Third Series C Bonds allocated to these purposes will be held by the State Treasurer in the Water Supply and Wastewater Treatment Fund and invested in accordance with applicable state and federal laws.

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

Governor-elect Tom Corbett and Lieutenant Governor-elect James Cawley will take office on January 18, 2011.

Commonwealth Employees

Employees are permitted to organize and bargain collectively. As of July 2009, 82 percent of the full-time salaried employees under the Governor's jurisdiction were covered by collective bargaining agreements or memoranda of understanding. Approximately 44 percent of state employees are represented by the American Federation of State, County and Municipal Employees ("AFSCME"). Approximately 62 percent of state employees, represented by the AFSCME, Pennsylvania Social Services Union and other unions, are covered by contracts effective July 1, 2007 and expiring on June 30, 2011. These contracts provide for a $1,250.00 one-time cash payment, which is equivalent to approximately 2.8 percent of the average employee salary in the first year of the contract, and ten percent salary increases over the last three years of the contracts. Interest arbitration awards cover five other unions. Two of the awards took effect on July 1, 2007 and expire on June 30, 2011 and provide a 13 percent increase over the four year term of the agreements. Another award runs from July 1, 2008 through June 30, 2011 and provides a 10 percent increase over the term of the contract. The fourth award establishes an agreement that runs from July 1, 2008 through June 30, 2012 and provides a 14 percent increase over a four year term. The remaining interest arbitration unit involves a contract that expired in 2007 and remains in negotiations. Table 4 presents the number of approved and filled positions under the Governor's jurisdiction on July 1st of the years 2005 through 2009.

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

As of July 1	Total Full and Part Time Filled Salaried Positions	Total Full Time Salaried Employees	Civil Service Salaried Positions	Civil Service As a % of Total Filled Salaried Positions
2005	77,041	76,726	53,163	69.0
2006	78,733	78,442	54,428	69.1
2007	77,013	76,716	52,918	68.7
2008	77,531	77,259	53,141	68.5
2009	77,248	76,979	52,905	68.5

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

* Tables 2 and 3 intentionally omitted

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 2011 refers to the fiscal year ending June 30, 2011.) 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, 2009, which is incorporated herein by reference, any procedures on the financial statements addressed in that report nor has it performed any other procedures specifically relating to this Official Statement. The audited Basic Financial Statements are a component of the Commonwealth's Comprehensive Annual Financial Report ("CAFR"). The CAFRs for recent fiscal years, including the fiscal year ended June 30, 2009, have been filed with the Municipal Securities Rulemaking Board via its Electronic Municipal Market Access system ("EMMA") and are available from EMMA (http://www.emma.msrb.org) and at the Budget & Financial Reports section of the Office of the Budget's web site - www.budget.state.pa.us - and such CAFRs are incorporated herein by reference. In February 2004, the Commonwealth restated its GAAP basis financial statements for the fiscal year ended June 30, 2002, for reasons discussed in "COMMONWEALTH FINANCIAL PERFORMANCE – Restatement of Financial Statements." The Commonwealth has filed both the restated financials and restated CAFR and has posted them at the Office of the Budget's web site. **Beginning with the CAFR for the fiscal year ended June 30, 2002 and continuing in subsequent CAFRs, the Commonwealth has incorporated several new accounting and reporting standards that affect the comparability of financial information for those fiscal years to GAAP basis financial information reported for fiscal years prior to the adoption of such new standards. See "New Governmental Accounting and Reporting Standards" below.**

New Governmental Accounting and Reporting Standards

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

Investment of Funds

The Treasury Department is responsible for the deposit and investment of most funds belonging to the Commonwealth, including the proceeds of the Bonds and the funds held for the 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 Credit Service "AA" rating or the equivalent by Standard & Poor's 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, 2010.

Budget Stabilization Reserve Fund and Tax Stabilization Reserve Fund

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

Balances in the Budget Stabilization Reserve Fund, the successor to the Tax Stabilization Reserve Fund, may be used to alleviate emergencies threatening the health, safety or welfare of the Commonwealth's citizens or to offset unanticipated revenue shortfalls due to economic downturns. Income to the 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. At present, the Commonwealth has a virtually zero balance in the Budget Stabilization Reserve Fund.

Balances in the Budget Stabilization Reserve Fund are to be used only when emergencies involving the health, safety or welfare of the residents of the Commonwealth or downturns in the economy resulting in significant unanticipated revenue shortfalls cannot be dealt with through the normal budget process. Funds in the Budget Stabilization Reserve Fund may be appropriated only upon the recommendation of the Governor and the approval of a separate appropriation bill by a vote of two-thirds of the members of both houses of the General Assembly. Any funds appropriated from the Budget Stabilization Reserve Fund that are unspent are returned to the Budget Stabilization Reserve Fund.

COMMONWEALTH FINANCIAL PERFORMANCE

Recent Developments

The Commonwealth's operating budget continues to be affected by the continuing financial turmoil that has resulted from the most recent national economic recession. A report on the same will be presented by Governor Rendell on December 16, 2010 as required by Commonwealth statute. While details are not available at this time, it is expected that the Commonwealth may likely experience minimally lower than estimated General Fund revenue collections and may likely need to appropriate supplemental funds to address increased caseloads and utilization within the Department of Public Welfare. Exact figures for either revenue shortfalls or additional supplemental appropriation needs are not available at this time but neither is expected to be individually greater than approximately $200 to $250 million.

On July 6, 2010, the Commonwealth's fiscal year 2011 budget was signed into law by the Governor. The fiscal year 2011 budget includes a projected decline in Commonwealth revenues, prior to reserves for tax refunds, of 3.4 percent over fiscal year 2010 receipts. The rate of growth projected 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 2011 budget provides for a minimal increase in appropriations of 0.7 percent over the fiscal year 2010 enacted budget and supplemental appropriations. The difference between the enacted appropriations and available revenues is funded through the utilization of federal American Recovery and Reinvestment Act of 2009 ("ARRA") Offset Appropriations. See "Fiscal Year 2011 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, 2009 ("fiscal year 2009"), which was filed with EMMA on January 28, 2010. 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 2009 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, Ms. Mary Soderberg, Attn: Mr. Mike Higgins, 555 Walnut Street, 9th Floor, Harrisburg, Pennsylvania 17101 (Telephone (717) 425-6736), and (iii) the Budget & Financial Reports section of the Office of the Budget's web site at www.budget.state.pa.us, which CAFRs are incorporated herein by reference. The basic financial statements for fiscal year 2009 are incorporated herein by reference. This means that (i) the incorporated information is considered part of this Official Statement, and (ii) such information should be reviewed by prospective purchasers of the Bonds as a part of their review of this entire Official Statement.

Government-Wide Financial Data (GAAP Basis)

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

Table 5, on the following page, presents condensed financial statement information derived from the Commonwealth's government-wide June 30, 2009 Statement of Net Assets and includes amounts for the "primary government" only.

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Table 5
Condensed Statement of Net Assets
Primary Government
Fiscal Year Ended June 30, 2009
(In Billions)

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

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

During the fiscal year ended June 30, 2009, the overall financial position (net assets) of the Commonwealth, including both governmental and business-type activities, decreased by $4.7 billion, or nearly 16.5 percent of total beginning net assets of $28.5 billion. For governmental activities, the net decrease in net assets was $2.1 billion or 8.3 percent of beginning net assets of $25.3 billion. Total investments, excluding the State Employees' Retirement Fund and all other fiduciary funds, totaled over $14.3 billion and total cash balances were over $633 million at June 30, 2009. These amounts represent significant decreases from prior year fiscal year investment ($19.3 billion) and cash ($1.8 billion) balances. Such decreases were primarily caused by much lower General Fund and other tax revenues, a sharp decrease in Unemployment Compensation net assets, and lower investment income during the fiscal year. The fiscal year decrease in governmental activities net assets ($2.1 billion) represents a $3.1 billion change from the prior fiscal year's (restated) increase of $1.0 billion. These fiscal year decreases represent significant year-over-year deteriorations in the Commonwealth's overall financial position when compared to the prior fiscal year ended June 30, 2008. The $2.6 billion decrease in total net assets for business-type activities follows a $400 million decrease during the prior fiscal year. The $2.2 billion year over year decrease is primarily attributable to a net assets decrease of over $1.9 billion in the unemployment compensation program, where the prior fiscal year net assets decrease was less than $100 million. During the fiscal year, unemployment compensation revenues increased by nearly $2.1 billion while expenses increased by $4.0 billion; in the prior fiscal year revenues decreased by $106 million and expenses increased by $213 million. Also, during the fiscal year ended June 30, 2009, combined decreases in net assets of the State Lottery Fund ($280 million decrease in the fiscal year compared to $213 million decrease in the prior fiscal year) and the Tuition Payment Fund ($150 million decrease in the fiscal year compared to $132 million decrease in the prior fiscal year) were reported.

Financial Data for Governmental Fund Types (GAAP Basis)

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

The governmental funds balance sheet reports total fund balances for all governmental funds. Assets of the Commonwealth's governmental funds (the General Fund, the Motor License Fund and the Tobacco Settlement Fund are major governmental funds) as of June 30, 2009 were $17,295.4 million. Liabilities for the same date totaled $11,205.9 million, leaving a fund balance of $6,089.5 million, a decrease of $2,740.5 million from the fund balance at June 30, 2008. On a fund specific basis, the fund balance for the General Fund decreased by $2,458.9 million, the fund balance for the Motor License Fund decreased by $56.8 million, the fund balance for the Tobacco Settlement Fund decreased by $130.4 million and the fund balance for aggregated non-major funds decreased by $94.4 million. See "General Fund – Fiscal Year 2009 Financial Results."

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

Table 6
Reconciliation of the Balance Sheet
Govermental Funds (Fund Perspective) to
the Statement of Net Assets - Governmental Activities
June 30, 2009
(In Thousands)

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

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

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

General Fund

Financial Results for Recent Fiscal Years (GAAP Basis)

During the five-year period from fiscal year 2005 through fiscal year 2009, total revenues and other sources increased by an average of 3.2 percent annually. Tax revenues during this same period increased by an annual average of 0.8 percent with a portion of the average annual growth rate adversely impacted by a significant decline in tax revenue and revenues from other sources in fiscal year 2009. During the past several fiscal years, fees and license income and other financing sources such as transfers from other funds have continued to become a larger portion of income to the General Fund. Expenditures and other uses during the fiscal years 2005 through 2009 rose at an average annual rate of 2.2 percent. Expenditures for the protection of persons and property during this period increased at an average annual rate of 6.6 percent; public education expenditures during this period increased at an average annual rate of 4.0 percent; health and human services expenditures increased at an average annual rate of 2.4 percent; and capital outlays increased at an average annual rate of 6.1 percent. Commonwealth expenditures for direction and support services (state employees and government administration) decreased at an average annual rate of 21.4 percent during the fiscal years 2005 through 2009. The fund balance at June 30, 2009 totaled $515.2 million, a decrease of $2,458.9 million from the balance at June 30, 2008. The fiscal year 2009 year-end unreserved-undesignated portion of the fund balance was negative $2,541.1 million, $2,531.5 million below the amount recorded for fiscal year 2008 year's end.

Table 7, on the next page, presents a summary of revenues and expenditures (GAAP basis) for the General Fund, (including the Budget Stabilization Reserve Fund) for the fiscal years 2005 through 2009.

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

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

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

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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 2009	Actual Fiscal Year 2010	Budget Fiscal Year 2011
Sources:			
Cash revenues	$ 25,529.8	$ 27,648.2	$ 26,711.7
Tax refunds	(1,225.0)	(1,125.0)	(1,125.0)
Additional resources available	0.0	0.0	0.0
Public Health and Human Services Assessments[a]	445.8	678.3	798.1
TOTAL SOURCES	$ 24,750.6	$ 27,201.5	$ 26,384.8
Uses:			
General fund appropriations	$ 28,323.8	$ 27,835.9	$ 28,043.1
Expenditures from additional resources	0.0	0.0	0.0
Lapses and other reductions[b]	(634.2)	(3,063.0)	(2,753.5)
Public Health and Human Services Assessments[a]	445.8	678.3	798.1
TOTAL USES	$ 28,135.4	$ 25,451.2	$ 26,087.7
OPERATING BALANCE	$ (3,384.8)	$ 1,750.3	$ 297.1
BEGINNING UNAPPROPRIATED BALANCE	585.3	(2,799.5)	(294.2)
ADJUSTMENT TO UNAPPROPRIATED BALANCE	…..	…..	…..
TRANSFER (TO)/FROM BUDGET STABILIZATION RESERVE FUND	0.0	755.0	0.0
ENDING UNAPPROPRIATED BALANCE	$ (2,799.5)	$ (294.2)	$ 2.9

Totals may not add due to rounding.

(a) Only includes funds replacing Commonwealth funds. Fiscal year 2009 includes $181.7 million from a nursing home tax used to augment appropriated funds for long-term care. For fiscal year 2010, this number is $237.8 million and for fiscal year 2011 it is $240.5 million. Fiscal year 2009 included $203.5 million, fiscal year 2010 included $405.1 million and fiscal year 2011 includes an estimated $350.4 million from a tax imposed on managed care organizations. Additionally, fiscal year 2010 included $35.8 million and fiscal year 2011 includes an estimated $200.5 million from a hospital assessment and a Statewide Quality Care Assessment.

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

Fiscal Year 2008 Financial Results

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

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

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

Total General Fund expenditures increased by 3.04 percent during the fiscal year ended June 30, 2008, by $1.280 billion. Reported expenditures for health and human services expenditures increased by $781 million, caused by a higher aggregate need for medical assistance services, and income or cash grant assistance. Public education expenditures increased by $623 million due primarily to increases in basic education ($166 million), school employee retirement ($77 million), pre-K programs ($60 million), higher education subsidies ($55 million) and several other subsidies to school districts ($265 million). Protection of person and property expenditures 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 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

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

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 $27,201.5 million. Total expenditures, net of appropriation lapses and including public health and human services assessments and expenditures from additional sources (federal ARRA funding), were $25,451.2 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 are 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 eliminates funding for over 100 programs, lowering General Fund spending by nearly $1,900.0 million. Nearly 3,000 Commonwealth positions were to be eliminated in fiscal year 2010, bringing the total reduction in the Commonwealth's workforce to 4,767 positions since 2003.

Fiscal Year 2011 Budget

The enacted fiscal year 2011 budget provides appropriations and executive authorizations, net of lapses and other reductions, totaling $26,087.7 million of Commonwealth funds against estimated revenues, net of tax refunds and including public health and human services assessments, of $26,384.8 million. The $297.1 million positive difference between estimated revenues and budgeted appropriations is to be utilized to eliminate the negative $294.2 million ending balance from fiscal year 2010. The fiscal year 2011 ending unappropriated balance is estimated to be $2.9 million.

The fiscal year 2011 revenue estimate is based upon an economic assumption that economic growth will total nearly 3.3 percent annual growth by June 2011. Tax revenues of the Commonwealth are estimated to increase 3.1 percent from fiscal year 2010 levels. Total revenues of the Commonwealth, prior to reserves for refunds are expected to decline $936.5 million or 3.4 percent from fiscal year 2010 levels. This decline is due mainly to a reduction in one-time revenue sources utilized to balance the fiscal year 2010 budget. However, the fiscal year 2011 enacted budget does include various one-time state revenue transfers totaling an estimated $664.4 million. These items include but are not limited to transfers of: $250 million from the Tobacco Settlement Fund; $180 million from the Oil and Gas Lease Fund; $121 million from the Tobacco Settlement Fund (PSERS augmentation); $44 million from the Autocat Surcharge; $25 million from the State Stores Fund; and $44.4 million from various other balance transfers from other Commonwealth funds. Fiscal year 2011 receipts from corporate tax receipts are projected to increase 2.4 percent based on an anticipated recovery within the corporate net income tax area. Personal income tax receipts in fiscal year 2011 are expected to grow 1.6 percent on a year-over-year basis. Sales and use tax receipts are projected to increase 3.8

percent during fiscal year 2011. Non-tax revenues are projected to decline 62.6 percent, primarily from the reduction in one-time transfers utilized to balance the fiscal year 2010 budget.

Commonwealth funded appropriations for fiscal year 2011 total $26,087.7 million, an increase of $636.5 million from fiscal year 2010 levels. The enacted budget for fiscal year 2011 also assumes $2,754 million in federal fiscal relief to offset state appropriations. Included within the estimated $2,754 million in federal fiscal relief is an estimated $848 million in enhanced Federal Medicaid Assistance Percentage funding ("FMAP") which had not been authorized by the U.S. Congress at the time that the Commonwealth's fiscal year 2011 budget was adopted. During August 2010, FMAP federal funding was enacted by Congress and signed into law by President Obama. Pennsylvania will receive a reduced amount of FMAP funding totaling approximately $600 million rather than the $848 million estimated in the fiscal year 2011 budget. As a result of the reduced level of FMAP funding, the Governor announced that he was ordering all agencies under his jurisdiction to reduce fiscal year spending by 1.9 percent to offset the shortfall. These savings, estimated to be $212 million, together with a projected $70 million to be received in fiscal year 2011 from a still un-enacted tax on oil and gas extraction, if realized, would offset the reduced level of FMAP funding from the federal government.

The fiscal year 2011 budget originally estimated layoffs of Commonwealth employees totaling between 700 and 1,000 persons. Following enactment of the reduced level of FMAP funding ($600 million versus $848 million) and in combination with a continued hiring freeze and higher than expected retirements, the Commonwealth expects estimated layoffs of Commonwealth employees to total less than 100 during fiscal year 2011. Since 2003, funded positions within the Commonwealth have been reduced from over 81,000 to just over 76,000. In the event that the anticipated tax on oil and gas extraction is not enacted during fiscal year 2011 (so as to produce $70 million of additional revenue), the Commonwealth will endeavor to implement as yet unidentified spending reductions to various areas of the budget and additional layoffs of employees will be likely.

Education funding is expanded in the enacted fiscal year 2011 budget to provide an additional $250 million for Pre-K-12 education. The Commonwealth's main support for local school districts, the Basic Education appropriation, is budgeted to increase 4.5 percent over the prior year level, boosting the total subsidy to $5,800 million, while funding for all of the state's education programs will increase 1.3 percent. Funding for economic development initiatives is also enhanced; a $600 million increase to the Redevelopment Assistance Capital Program, a component of the Commonwealth's capital budget, is expected to cause investment of a total of over $1,200 million into various economic development projects across the Commonwealth over the next 1-3 fiscal years. The $1,200 million investment would come from the Redevelopment Assistance Capital Program's matching fund requirements as state grants totaling $600 million are planned to be combined with non-state matching investments of at least $600 million. The enacted budget agreement also included a pledge by the General Assembly and the Governor to work to enact a new levy on the extraction of natural gas within the Commonwealth. The new levy was projected to be enacted by October 1, 2010 and would take effect on January 1, 2011. Details, including the rates, structure of the levy and the use of the proceeds, were to be negotiated between the General Assembly and the Governor. As of the date of the printing of this document, no such levy has been enacted and it is unknown whether such a levy will be enacted by the Commonwealth. As a result, the incoming Governor is expected to implement, after January 18, 2011, an additional $70 million in budget cuts in agencies under his jurisdiction in order to balance the fiscal year 2011 budget.

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

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

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

The $74 million decrease in cash and investments ($308 million decrease), net of securities lending obligations decrease of $234 million, is a result of total expenditures exceeding total revenues during fiscal year 2009. Other assets increased by $48 million primarily because federal receivables for the bridge projects appropriation were $12 million higher as a result of increased bridge expenditures. Similarly, bridge projects included in Act 96 of 2008 accounted for $14 million in higher receivables from the Capital Facilities Fund. American Recovery and Reinvestment Act activity accounted for an additional $3.3 million in federal receivables. Accounts payable increased by $49 million, primarily as a result of overall increases in expenditures. Net transfers to other funds declined by $34 million due primarily to one-time activity occurring in the prior fiscal year: a $41.4 million transfer to the PA Infrastructure Bank Fund providing additional funding for the Municipal Loan Program and transfers from the General Fund ($7.9 million) and the Public Transportation Trust Fund ($3.3 million).

Table 9, 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 2005 through 2009.

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

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

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

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

Fiscal Year 2008 Financial Results

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

Motor License Fund revenue growth during fiscal year 2008 was attributable to statutory revisions enacted as part of Act 44, which was signed into law on July 18, 2007. Act 44 provided the largest single-year increase in Commonwealth funding for transportation. Through a "public-public" partnership between the Pennsylvania Department of Transportation and the Pennsylvania Turnpike Commission, the Commonwealth sought to invest nearly $1 billion annually in transportation infrastructure. Act 44 was designed to provide an average of $950 million in new funding per year for highways, bridges and transit over the next ten years. In fiscal year 2008, $750 million in additional funding was invested in the state's transportation system with $450 million going to highway and bridge projects and $300 million to mass transit projects. By fiscal year 2010, $900 million was expected to be invested annually with $500 million for highway and bridge projects and $400 million for mass transit. After fiscal year 2010, investments were expected to rise 2.5 percent annually. Initially, funding for the additional investments 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 are expected to decline 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.

The achievement of the budgeted results, as shown in the Commonwealth's 2010 audit, when available, may be adversely affected by a number of trends or events, including developments in the national and state economy.

Fiscal Year 2011 Budget

The fiscal year 2011 adopted budget includes an estimated $2,323.7 million from Commonwealth Motor License Fund revenues and Motor License Fund appropriations totaling $2,425.5 million. The enacted amount of appropriations represents a decrease of $202.2 million or 7.7 percent from the appropriated level for fiscal year 2010, attributable to a decline in estimated Other Revenues of the Motor License Fund associated with lower payments to the Motor License Fund from the Pennsylvania Turnpike Commission. The $101.8 million difference between the estimated fiscal year 2011 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 $165.1 million beginning balance. The projected fiscal year end 2011 unappropriated balance is estimated to be $63.3 million, a decline of 62.7 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, 2009, were -$144.5 million, a $280.3 million decrease from the June 30, 2008 fund balance, which represents a 206 percent decrease. Over the five fiscal years 2005 through 2009, revenues have averaged an annual 4.3 percent increase while expenditures and other uses during the same period have averaged a 7.8 percent annual increase.

As of June 30, 2009 the year over year decrease in cash and investments of $372 million was the result of lower securities lending program balances ($134 million), combined with lower year over year investment valuations and the result of total expenses and transfers exceeding total revenues and transfers by $280 million. Also, periodically, investments were sold to meet current cash flow needs of the State Lottery Fund, and transfers to other funds. Other expenses increased by $12 million as a result of more individuals applying for and qualifying for federal assistance. Fiscal year transfers from other funds decreased by $51 million. Act 1 of Special Session 1 of 2006 authorized $48.5 million during fiscal year 2009 to finance the expansion of the Property Tax Rent Rebate (PTRR) program. Fiscal year transfers to other funds decreased by $21 million. This was primarily due to a $23.90 million decrease in State Lottery Fund resources needed to support the PACE Program (pharmaceutical benefits for the elderly) Fund due to decreases in both utilization and number of enrollees. Also, as a result of Act 44 of 2007, the Public Transportation Trust Fund (PTTF) was established to provide additional funding for public transportation in the Commonwealth. A portion of PTTF funding was provided by the State Lottery Fund to finance expenditures associated with the Shared Ride and Free Transit programs for older Pennsylvanians. During fiscal year 2009 $82.1 million was transferred to PTTF, which was an increase of $2.1 million. The funding was ultimately disbursed as grants to public transit agencies. Table 10 sets forth a condensed summary of revenues and expenditures (presented on a GAAP basis) for the State Lottery Fund for fiscal years 2005 through 2009.

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

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

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

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

Fiscal Year 2008 Financial Results

Budgetary Basis. Fiscal year 2008 net revenues from lottery sources, including instant ticket sales and the State's participation in the multi-state Powerball game, increased by $19.7 million or 1.3 percent. Total funds available, including prior year lapses, were $2,136.4 million. 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

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

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 $176 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 2011 Budget

The enacted fiscal year 2011 budget anticipates a 4.8 percent increase in revenues from all lottery sources, including instant ticket sales and the State's participation in the multi-state Powerball game. Revenues of the State Lottery Fund are estimated to be $1,582.2 million in fiscal year 2011, an increase of $71.8 million from fiscal year 2010 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 $1,594.6 million are expected, which represents an increase of $32.1 million or 2.1 percent from fiscal year 2010. As was the case in the fiscal year 2010 budget, the fiscal year 2011 budget contains a decrease in State Lottery Fund expenditures for long-term care as state funds from other sources are again being provided to support such costs. The fiscal year-end balance is projected to total $89.0 million, a decrease of 12.2 percent.

Trend projections for fiscal years beyond fiscal year 2011 show estimated program and administrative costs above estimated net revenues, as the forecasted rate of increase in program expenditures, primarily the pharmaceutical assistance program, is expected to outpace revenues. The estimated expenditures in excess of estimated revenues will be 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 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 2005 through 2010 and as budgeted in the enacted fiscal year 2011 budget.

Table 11
Commonwealth Revenues (a)
General Fund, Motor License Fund and State Lottery Fund - Unaudited
Fiscal Year 2005 – Fiscal Year 2010 and Fiscal Year 2011 Budget
(In Millions)

	Fiscal Year Ended June 30						Enacted
	2005	2006	2007	2008	2009	2010	2011 (f)
General Fund							
Tax Revenues:							
Sales and use	$ 8,000.0	$ 8,334.2	$ 8,590.8	$ 8,496.6	$ 8,135.5	$ 8,029.2	$ 8,337.3
Personal income	8,746.8	9,524.1	10,261.6	10,907.7	10,198.7	9,968.7	10,124.5
Corporate (b)	2,947.3	3,382.8	3,492.4	3,437.6	2,767.6	2,552.2	2,614.0
Public utility (c)	1,167.1	1,191.2	1,340.8	1,393.6	1,418.7	1,326.2	1,374.3
Inheritance	716.1	745.2	756.6	828.6	772.2	753.8	770.9
Financial and insurance (d)	619.6	595.0	626.1	610.1	630.0	682.3	641.4
Cigarette	784.4	792.1	778.6	784.1	754.2	976.1	1,092.9
Realty transfer	472.5	552.5	571.0	429.5	294.5	296.0	318.6
Alcoholic beverages (e)	237.4	249.2	264.7	277.4	292.5	297.6	310.4
Other	21.3	3.7	1.4	128.0	30.8	27.9	102.0
TOTAL TAX REVENUES	$ 23,712.5	$ 25,370.0	$ 26,684.0	$ 27,293.2	$ 25,294.7	$ 24,910.0	$ 25,686.3
Non-Tax Revenues:							
Liquor store profits	$ 54.9	$ 80.0	$ 150.0	$ 80.0	$ 125.0	$ 105.0	$ 105.0
Licenses, fees and miscellaneous	509.1	368.6	573.6	506.3	90.2	2,606.7	900.2
Fines, penalties and interest	32.0	35.5	41.7	48.6	20.1	26.5	20.2
TOTAL NON-TAX REVENUES	$ 596.0	$ 484.1	$ 765.3	$ 634.9	$ 235.3	$ 2,738.2	$ 1,025.4
TOTAL GENERAL FUND	$ 24,308.5	$ 25,854.1	$ 27,449.3	$ 27,928.1	$ 25,530.0	$ 27,648.2	$ 26,711.7
Motor License Fund							
Tax Revenues:							
Liquid fuels	$ 588.4	$ 581.8	$ 589.2	$ 591.7	$ 520.5	$ 548.9	$ 555.6
Fuels use	157.4	162.4	162.8	157.1	149.6	145.3	145.2
Oil company franchise	381.3	445.2	462.8	447.7	452.8	448.0	441.8
Motorbus & alt fuels	32.7	36.6	40.6	40.0	40.3	41.7	38.9
TOTAL TAX REVENUES	$ 1,159.8	$ 1,226.0	$ 1,255.4	$ 1,236.5	$ 1,163.2	$ 1,183.9	$ 1,181.5
Non-Tax Revenues:							
Licenses and fees	$ 876.9	$ 877.8	$ 870.0	$ 872.1	$ 883.9	$ 857.7	$ 855.7
Other and miscellaneous	120.1	162.0	165.4	559.4	509.7	599.5	286.5
TOTAL NON-TAX REVENUES	$ 997.0	$ 1,039.8	$ 1,035.4	$ 1,431.5	$ 1,393.6	$ 1,457.2	$ 1,142.2
TOTAL MOTOR LICENSE FUND	$ 2,156.8	$ 2,265.8	$ 2,290.8	$ 2,668.0	$ 2,556.8	$ 2,641.1	$ 2,323.7
State Lottery Fund							
Non-Tax Revenues:							
Lottery revenues	$ 1,194.0	$ 1,430.1	$ 1,465.8	$ 1,405.6	$ 1,389.8	$ 1,332.6	$ 1,413.8
Other and miscellaneous	17.9	29.5	32.9	34.2	21.2	177.8	168.4
TOTAL NON-TAX REVENUES	$ 1,211.9	$ 1,459.6	$ 1,498.7	$ 1,439.8	$ 1,411.0	$ 1,510.4	$ 1,582.2
TOTAL STATE LOTTERY FUND	$ 1,211.9	$ 1,459.6	$ 1,498.7	$ 1,439.8	$ 1,411.0	$ 1,510.4	$ 1,582.2

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 July 6, 2010 (See Fiscal Year 2011 Budget for additional information).

Table 12 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 2010
(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

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 89.8 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 79 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 43 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 $9,968.7 million or 36.1 percent of fiscal year 2010 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 $8,029.2 million or 29 percent of fiscal year 2010 General Fund Commonwealth revenues. The tax is levied at a rate of 6 percent on the sale, use, storage, rental or consumption of tangible personal property, cigarettes, and certain services, and upon the occupancy of hotel rooms. Substantial exemptions from the tax include clothing, food purchased in grocery stores or supermarkets, medical supplies, drugs, residential use of certain utilities, motor fuels, and machinery, equipment and items used in manufacturing, processing, farming or dairying, and utility service. The tax base was expanded in fiscal year 1992 to include a number of services not previously taxed. Beginning in fiscal year 1998, 1.22 percent of collections, up to an annual limit of $75 million, are transferred to a special fund for mass transit assistance. Beginning in fiscal year 2008 with the enactment of Act 44 of 2007, an additional 4.4 percent of receipts are transferred for transit assistance purposes.

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

Corporate Net Income Tax. The Commonwealth received $1,791.0 million, or 6.5 percent of fiscal year 2010 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 $1,286.7 million, or 4.7 percent of fiscal year 2010 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 $761.2 million for the Commonwealth in fiscal year 2010, or 2.8 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 $976.1 million in fiscal year 2010, or 3.5 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 $753.8 million in fiscal year 2010, or 2.7 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 $548.9 million, or 20.6 percent of Motor License Fund Commonwealth revenues in fiscal year 2010. 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 $448.0 million, or 16.8 percent of fiscal year 2010 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 $145.3 million, or 5.4 percent of fiscal year 2010 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 $284.0 million, representing 1.0 percent of Commonwealth revenues to the General Fund. Revenues from motor vehicle licenses and fees in fiscal 2010 were $857.7 million, representing 32.1 percent of total fiscal year 2010 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 2010 totaled $2,322.7 million and were comprised primarily of transfers of various reserve balances. Receipts from miscellaneous motor vehicle revenues in fiscal 2010 were $599.5 million, representing 22.7 percent of total fiscal year 2010 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 2010 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 2010 was $26.5 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

Anticipated receipts by the Commonwealth in its General Fund, Motor License Fund, Tobacco and State Lottery Fund from the federal government during fiscal year 2010 total $26 billion, while such federal receipts are projected at $27.4 billion in fiscal year 2011. Approximately $15.5 billion, or 59.5 percent of total federal revenue to the Commonwealth for fiscal year 2010, is attributable to public health and welfare programs, the largest of which are for the Medical Assistance and Temporary Assistance to Needy Families programs. In fiscal year 2011, $17.4 billion, or 63.5 percent of federal revenues, is attributable to these types of programs.

Federal receipts have been influenced by the enactment of the American Recovery and Reinvestment Act (ARRA), with receipts of $1.2 billion in fiscal year 2009, $2.7 billion in fiscal year 2010 and $2.8 billion estimated for 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 2009 and fiscal year 2010 and the enacted budget for fiscal year 2011.

Education

In fiscal year 2010, expenditures from Commonwealth revenues for education purposes were more than $11 billion. The enacted budget for fiscal year 2011 includes over $11.2 billion in education funding, an increase of 1.4 percent over fiscal year 2010.

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 2011 increases the Basic Education subsidy by nearly $253 million, or 4.57 percent, to more than $5.7 billion paid from a combination of state and federal stimulus funds. The increase is intended to help each qualifying school district make progress in funding the variance between its adequacy target calculated by the Department of Education and its actual spending. For each qualifying school district, the state share of this variance is based on its local wealth and its existing tax burden. The funding formula also considers district size and geographic price differences as well as student enrollment characteristics such as family poverty levels and English language learners. For fiscal year 2011, each school district will be guaranteed, if necessary, a 2 percent increase over its fiscal year 2010 total allocation.

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

Total Commonwealth expenditures for basic education programs in fiscal year 2010 were nearly $9.1 billion, representing 82.1 percent of all Commonwealth expenditures for education in fiscal year 2010. The enacted budget for fiscal year 2011 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 2006-2010
(In Thousands)

	School Year Ended June				
	2006	**2007**	**2008**	**2009**	**2010**
Elementary Schools					
Public	931	929	922	922	926
Nonpublic	203	196	190	182	173
Secondary Schools					
Public	900	892	880	863	852
Nonpublic	78	79	76	74	73
Total					
Public	1,831	1,821	1,802	1,785	1,778
Nonpublic	281	275	266	256	246
Total	2,112	2,096	2,068	2,041	2,024

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 was expended by the Commonwealth in the 2010 fiscal year for these institutions and for student financial assistance. The enacted budget for fiscal year 2011 includes nearly $2 billion for higher education. This includes a combination of state and federal stimulus funds.

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

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

Source: Governor's Executive Budget, various years.

Public Health and Human Services

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

Fiscal year 2010 public health and human services expenditures were $27.3 billion and are projected to be $29.9 billion for fiscal year 2011. With regard to fiscal year 2010 expenditures, $9.0 billion was funded from the General Fund, while $8.9 billion is estimated to be provided from the General Fund for fiscal year 2011. The state fund amounts reflect the impact of an expected enhanced federal match of nearly $1.8 billion in fiscal year 2010 and $1.8 billion in fiscal year 2011. Federal funds are expected to increase by $2 billion, and augmentations are expected to increase by $422.4 million for fiscal year 2011. Public health and human service programs are the largest single component of combined state and federal spending in the Commonwealth's operating budget. The overall budget increase reflects the impact of caseload increases as well as higher costs to provide support for former welfare clients obtaining work, federal mandates, litigation and continued support of county operated programs for child welfare, mental health and mental retardation.

The fiscal year 2011 enacted budget includes $364.8 million of receipts from the Tobacco Settlement Fund that will be expended for health care and to offset General Fund expenditures. Federal funds matching the additional state Tobacco MSA funds are included in the increase noted above. In addition, under the terms of the 1998 settlement that created the Tobacco Settlement Fund, payments by the tobacco companies may, in certain circumstances be reduced, reflecting decline in cigarette sales, and such payments also may be limited, delayed or terminated as a result of bankruptcy or insolvency of tobacco companies or legal challenges to the settlement or to amounts due thereunder. Since fiscal year 2007, receipts from the Tobacco MSA have been reduced as certain tobacco companies decided to withhold or to place into escrow approximately $2.4 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 $137.5 million. The Commonwealth has filed suit to recover the disputed payment funding withheld by tobacco companies. For fiscal year 2010, receipts from the April 2009 payment were reduced by $30 million and for fiscal year 2011, receipts from the April 2010 payment were reduced by $36.8 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, while $4.86 billion is budgeted from the General Fund for fiscal year 2011. 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 and is expected to provide a $240.5 million offset in fiscal year 2011. A Statewide managed care organization assessment provided a General Fund offset of $404.6 million in fiscal year 2010 and is expected to provide a $357.2 million offset in fiscal year 2011. In addition, a Statewide Quality Care Assessment is expected to provide a $120.9 million offset in fiscal year 2011. Approximately 30 percent of the total cost of assistance to the economically needy is supported by Commonwealth funds appropriated from the General Fund. The balance is provided from reimbursements by the federal government and through various program collection activities conducted by the Commonwealth.

Medical assistance continues to be a rapidly growing component of public health and human services expenditures. Despite implementation of Commonwealth initiatives to restrain costs, the program continues to grow due to an expanding caseload, technology improvements and general medical inflation. Expenditures for medical assistance increased during the period from fiscal years 2000 through 2010 by an average annual rate of 5.9 percent. Fiscal year 2010 expenditures from Commonwealth funds and augmentations were $5.6 billion and are projected to be $5.9 billion in 2011, an increase of 5.6 percent from the prior fiscal year. Income maintenance cash assistance payments to families in transition to independence were $1.4 billion for fiscal year 2010, of which $466.7 million was from the General Fund. The enacted budget for fiscal year 2011 includes a total of $1.5 billion, with $475.2 million provided from the General Fund. Cash assistance is time-limited and requires participation in work activities to maintain eligibility. To support a client's finding and retaining employment, small grants are available to clients to overcome employment obstacles such as child care, transportation, vision and hearing difficulties, and other such barriers. In fiscal year 2010 and the future, increased costs are expected to be incurred in training and support for the most hard to place clients, which is required by federal law, in order to meet the 50 percent work participation requirements included in reauthorization of the Temporary Assistance to Needy Families program. These increased costs will include some state-only payments for clients who are working the required amount but still require assistance to complete training.

Transportation

The Commonwealth is responsible for the construction, restoration and maintenance of the highways and bridges in the 40,000 mile state highway system, including certain city streets that are a part of the state highway system. Assistance for the maintenance and construction of local roads and bridges is provided to municipalities through grants of financial aid. Highway maintenance costs, construction costs and assistance grants are paid from the Motor License Fund. The State Lottery Fund and other special funds, including the Public Transportation Assistance Fund and the Public Transportation Trust 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 2009, $850 million in additional funding was invested in the state's transportation system with $500 million going to highway and bridge projects and $350 million to mass transit projects. In fiscal year 2010, this increased to $900 million, with $500 million going to highway and bridge projects and $400 million to mass transit programs. In fiscal year 2011, Act 44 provides $922.5 million, with $512.5 million for highway and bridge projects and $410 million for mass transit. After fiscal year 2010, investments were planned to rise 2.5 percent annually. Initially, the proposed funding for the additional investments would come from up to $5 billion in bonds to be issued by the Pennsylvania Turnpike Commission, to be repaid over time with revenue from a 25 percent toll increase on the Pennsylvania Turnpike beginning in 2009 and from new tolls to be collected on Interstate 80. In October 2007, the Turnpike Commission and the Pennsylvania 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. Since October 2007 a total of three applications including amendments were made to the Federal Highway Administration seeking federal authorization to toll and improve Interstate 80. All three applications were rejected. The Commonwealth is currently evaluating options available to it. Lease payments from the Turnpike Commission to the Commonwealth will likely decline to $450 million annually, beginning in fiscal year 2011, once the Commission's conversion period under the lease expires. Such reduction in lease payments would lead to a decrease of $300 million in annual expenditures for highway and bridge projects and a $150 million decrease in expenditures for mass transit from fiscal year 2010 levels.

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

Total funding for the Commonwealth's highway and bridge program for fiscal year 2009 was $2.373 billion. This level decreased slightly to $2.223 billion in fiscal year 2010 and is expected to decline to $1.925 billion in fiscal year 2011. The fiscal year 2011 total may increase if alternative funding to Interstate 80 tolling is found.

Support of highway and bridge expenditures by local governments through grants paid from Motor License Fund and restricted revenues was $388.7 million in fiscal year 2009 and $379.9 million in fiscal year 2010. In fiscal year 2011, grants to local governments will total $379.4 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 also changed with the enactment of Act 44. Mass transit funding was shifted from the General Fund to a combination of sources of revenue primarily, a new Public Transportation Trust Fund established by the Act of July 18, 2007 (P.L. 169, No. 44)("Act 44"). Act 44 repealed Chapter 13 (public transportation assistance), the Public Transportation law under which the Public Transportation Assistance Fund secured obligations, and placed those provisions, with amendments in a new Chapter 15 (sustainable mobility options). Act 44 grandfathered the Public Transportation Assistance Fund to secure existing obligations but began the phase out of such fund by prohibiting the pledge of monies from this fund to secure additional obligations issued after June 30, 2007. A subsequent technical amendment permits certain refunding obligations that do not extend the life of or increase the debt service on the refunded obligations to be secured by the Public Transportation Assistance Fund. Pursuant to such phase out of the Public Transportation Assistance Fund, as existing obligations secured by such fund are defeased, corresponding revenues flowing into the Public Transportation Assistance Fund are redirected into the Public Transportation Trust Fund. 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 as described above, and the Lottery Fund, and was planned 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. For fiscal year 2009, Commonwealth funding available for mass transit was $1.112 billion. Funding for mass transit in fiscal year 2010 totaled $1.171 billion. Fiscal year 2011 funding for mass transit will decrease slightly to $1.155 billion. The fiscal 2011 total may increase if alternative funding to Interstate 80 tolling is found.

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 2009 and 2010, $7.25 million was expended from aviation restricted accounts each year for such purposes. A total of $8.75 million is budgeted for fiscal year 2011.

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

OUTSTANDING INDEBTEDNESS OF THE COMMONWEALTH

General

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

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

Table 15
General Obligation Debt Outstanding[(a)]
Fiscal Years 2001-2010
(In Millions)

At June 30	General Obligation Debt Outstanding
2001	$5,416.2
2002	6,059.3
2003	6,767.2
2004	6,892.6
2005	6,747.4
2006	7,287.0
2007	7,834.0
2008	8,177.0
2009	8,653.7
2010	9,892.7

(a) Net of sinking fund balances.

Net outstanding general obligation debt totaled $9,892.7 million at June 30, 2010, a net increase of $1,239 million from June 30, 2009. Over the 10-year period ended June 30, 2010, total net outstanding general obligation debt increased at an annual rate of 7.0 percent. Within the most recent 5-year period, outstanding general obligation debt has increased at an annual rate of 8.0 percent.

General obligation debt for non-highway purposes of $9,451.3 million was outstanding on June 30, 2010. Outstanding debt for these purposes increased by a net $1,062.6 million since June 30, 2009. For the period ended June 30, 2009, the 10-year and 5-year average annual compound growth rate for total outstanding debt for non-highway purposes has been 7.5 percent and 7.5 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 $441.4.0 million on June 30, 2010, an increase of $176.4 million from June 30, 2009. Highway outstanding debt grew over the most recent 10-year and 5-year periods ended June 30, 2009, by the annual average rates of 0.2 percent and 21.8 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. The fiscal year 2011 budget includes $200 million in general obligation debt authority for the bridge rehabilitation program.

Table 16 shows selected debt ratios for the Commonwealth for fiscal year 2000 and for fiscal years 2006 through 2010. 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 2000 and 2006 through 2010

	Fiscal Year Ended June 30					
	2000	2006	2007	2008	2009	2010
Net Outstanding Debt (Millions)						
General Obligation Debt(a)....................	$ 5,015	$ 7,287	$ 7,834	$ 8,177	$ 8,653	$ 9,893
Lease Payment Obligations(b)...............	684	705	879	1,165	1,373	1,788
Total..	$ 5,699	$ 7,992	$ 8,713	$ 9,342	$ 10,026	$ 11,681
% Increase (Decrease) over prior year.	0.9%	16.6%	9.0%	7.2%	7.3%	16.5%
Population (Thousands)	12,285	12,471	12,522	12,566	12,604	12,604
Per Capita Debt...................................	$ 464	$ 641	$ 696	$ 743	$ 795	$ 927
Personal Income (Millions)...................	$ 365,626	$ 462,401	$ 485,102	$ 499,669	$ 498,867	$ 498,867
Debt as a % of Personal Income..........	1.6%	1.7%	1.8%	1.9%	2.0%	2.3%
Debt Service (Millions)(c)						
Highway Bonds(d)..............................	$ 128	$ 36	$ 30	$ 30	$ 26	$ 36
All Other Bonds.................................	613	800	849	912	975	996
Lease Payments.................................	80	17	47	58	74	92
Total..	$ 821	$ 853	$ 926	$ 1,000	$ 1,075	$ 1,124
Increase (Decrease) Over Prior Year	4.7%	5.2%	8.6%	8.0%	7.5%	4.6%
Cash Revenues (Million)[(e)]						
Motor License Fund...........................	$ 1,959	$ 2,266	$ 2,291	$ 2,668	$ 2,635	$ 2,641
General Fund......................................	20,257	25,854	27,449	27,928	25,529	27,648
Total..	$ 22,216	$ 28,120	$ 29,740	$ 30,596	$ 28,164	$ 30,289
% Increase (Decrease) over prior year	5.2%	6.3%	5.8%	2.9%	(8.0%)	7.6%
Highway Bond Debt Service as a % of Motor License Fund Revenues...	6.5%	1.6%	1.3%	1.1%	1.0%	1.4%
All Other Bond Debt Service and Lease Payments as a % of General Fund Revenues..................	3.4%	3.2%	3.3%	3.5%	4.1%	3.9%
Total Debt Service and Lease Payments as a % of Motor License and General Fund Revenues..........	3.7%	3.0%	3.1%	3.3%	3.8%	3.7%

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

General Obligation Debt Outstanding

As of June 30, 2010, the Commonwealth had the following amount of general obligation debt outstanding:

Table 17
General Obligation Debt Outstanding as of June 30, 2010
(In Thousands)

	Debt Outstanding[b]	Less: Refunding Escrow[c]	Less: Sinking Fund[d]	Net Debt Outstanding
Capital Projects Debt:				
Capital Facilities Bonds..	$ 6,963,905	$ (1,576,695)	$ (30,091)	$ 5,357,119
Highway Bonds(e)..	393,850	-	-	393,850
Refunding Bonds(e)	2,979,652	-	-	2,979,652
Total Capital Projects Debt Outstanding...............................	$ 10,337,407	$ (1,576,695)	$ (30,091)	$ 8,730,621
Electorate Approved Debt:				
PA Economic Revitalization Bonds..............................	$ 1,380	-	-	$ 1,380
Land & Water Development Bonds..............................	695	-	(1)	694
Nursing Home Loan Development Bonds.....................	-	-	-	-
Volunteer Companies' Loan Bonds...............................	225	-	-	225
Vietnam Veterans Compensation Bonds.......................	-	-	-	-
Water Facilities Restoration-1981 Referendum............	5,060	-	-	5,060
Pennvest—1988 Referendum Bonds.............................	34,045	(7,380)	(1,775)	24,890
Pennvest—1992 Referendum Bonds.............................	77,855	(12,150)	-	65,705
Agricultural Conservation Easement Bonds..................	1,835	-	-	1,835
Local Criminal Justice Bonds...	6,060	(2,025)	-	4,035
Keystone Recreation, Parks & Conservation Bonds......	-	-	-	-
Growing Greener Bonds..	454,900	(44,520)	-	410,380
Water Supply and Wastewater Treatment Bonds..........	176,710	(17,880)	-	158,830
Persian Gulf Conflict Veterans......................................	6,570	(760)	-	5,810
Water and Sewer Assistance..	145,000	-	-	145,000
Total Electorate Approved Debt Outstanding.........................	$ 910,335	$ (84,715)	$ (1,776)	$ 823,844
Other Bonded Debt:				
Disaster Relief Bonds..	$ 1,605	(1,450)	-	$ 155
Refunding Bonds...	338,088	-	-	338,088
Total Other Bonded Debt Outstanding...................................	$ 339,693	$ (1,450)	-	$ 338,243
Total General Obligation Debt Outstanding...........................	$ 11,587,435	$ (1,662,860)	$ (31,867)	$ 9,892,708

[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, 2010, for the years shown is as follows:

Table 18
Bond Debt Service
(In Thousands)

Fiscal Year Ending June 30	Principal	Interest	Total
2011	$697,510	$477,751	$1,175,261
2012	702,145	445,385	1,147,530
2013	697,695	409,193	1,106,888
2014	655,515	373,644	1,029,159
2015	601,495	342,205	943,700
2016	571,980	312,568	884,548
2017	550,230	285,468	835,698
2018	550,495	257,694	808,189
2019	549,060	229,717	778,777
2020	527,470	202,777	730,247
2021	519,185	178,510	697,695
2022	509,345	156,629	665,974
2023	466,860	134,080	600,940
2024	453,235	111,704	564,939
2025	411,765	90,488	502,253
2026	416,345	70,954	487,299
2027	373,380	51,201	424,581
2028	306,610	32,984	339,594
2029	219,100	19,129	238,229
2030	145,155	7,837	152,992
Grand Total	$ 9,924,575	$ 4,189,919	$14,114,494

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 $1,000 million in tax anticipation notes outstanding, which mature on June 30, 2011. In fiscal year 2010, the Commonwealth issued $800 million in tax anticipation notes, which were paid in full on June 30, 2010. 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 shows projected future issuance of new-money bonds (or bond anticipation notes) through fiscal year 2015 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.

Table 19
Projected Bond Issuance and Principal Retirements
Fiscal Years 2011-2015[(a)]
(In Millions)

	Fiscal Year Ending June 30				
	2011	**2012**	**2013**	**2014**	**2015**
Capital Facilities[(b)]					
Buildings and Structures	$ 890	$ 1,320	$ 700	$ 330	$ 320
Furniture and Equipment	25	50	20	0	0
Transportation Assistance	175	175	175	175	175
Redevelopment Assistance	225	375	350	140	0
Flood Control	35	15	5	2	2
Bridge Projects	200	200	200	200	200
Special Purpose:					
Pennvest — 1988, 1992 & 2008 Referenda	50	100	100	100	100
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)]	34	0	0	0	0
Persian Gulf Conflict Veterans Comp. Ref.[(a)]	2	5	3	4	0
Growing Greener II Referendum[(a)]	121	0	0	0	0
Total Projected Issuance	$ 1,757	$ 2,240	$ 1,553	$ 951	$ 797
Principal Retirement[(c)]	$ 754.9	$ 835.4	$ 887.4	$ 884.3	$ 866.1

Totals may not add due to rounding.
(a) As provided in the fiscal year 2011 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, 2010, PHFA had $4,831.1 million of revenue bonds outstanding.

Lease Financing

The Commonwealth, through several of its departments and agencies, leases various real property and equipment. Some leases and 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 6/30/2010	Final Maturity
Harristown Development Corporation	Office Space	$ 6,306	$ 38,505	May 1, 2016
Philadelphia Regional Port Authority	Port Facilities	4,485	37,000	Sept. 1, 2020
Sports & Exhibition Authority of Pittsburgh and Allegheny County	Public Auditorium	19,100	321,690	Nov. 1, 2039
CAFCO-PA Leasing I, LLC	Prison Facilities	3,769	17,635	Dec. 1, 2015
NORESCO, LLC	Equipment	2,158	15,930	Oct. 1 2026

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. 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 $88,500,000 were issued in September 2010 and are payable by the Commonwealth from annual appropriations to its Departments of Corrections and Public Welfare. The purpose of the additional installment purchase agreements is 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 currently being 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 Development and Tourism Fund and (2) other funds of the Commonwealth, subject to annual appropriation by the state legislature. Payments from the 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 Development and Tourism Fund be so applied. Moneys in the 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 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 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 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 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 $242.0 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, 2010, the CFA had $1,306.6 million in outstanding bond debt. With respect thereto, the Commonwealth's General Fund has appropriation responsibility with respect to for $906.6 million thereof and the Pennsylvania Gaming and Economic Development and Tourism Fund has appropriation responsibility with respect to $400 million of such outstanding debt. The Commonwealth's fiscal year 2011 enacted budget appropriates $78.480 million in state funds to the CFA for payment of CFA debt service during fiscal year 2011. Further, a portion of the existing interest earnings of the CFA, totaling approximately $5.0 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

On November 23, 2010, the Governor signed Act 120 of 2010 into law which implemented changes to the current actuarial methodologies of both of the Commonwealth benefit 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 of 2010 is the enactment of employer contribution collars which will reduce the previously anticipated very major increases in pension contributions which would have been required of the Commonwealth beginning in fiscal year 2013 (See discussion below). Contribution collars will be limits on the amount of year-over-year increase that are required from the employer, namely the Commonwealth. Contribution collars are expressed as a percentage of payroll and under Act 120 of 2010, 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.

The Preliminary Official Statement noted that due to the recent enactment of Act 120 of 2010, the balance of the discussion under "Pensions and Retirement Systems – General Information" (the "General Information Subsection") had not yet been updated to reflect the impact of Act 120 of 2010. The General Information Subsection in this final Official Statement set forth below has been updated to reflect the impact of Act 120 of 2010, and accordingly varies from the discussion presented in the Preliminary Official Statement.

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.

Act 120 of 2010 ("Act 120"), enacted into law on November 23, 2010, 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; 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 rate 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, and the implementation of employer contribution rate collars which are limits on the amount of year-over-year increases in the employer contribution rate. The collars are 3 percent for FY 2012, 3.5 percent for FY 2013 and then 4.5% for all subsequent years. 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 included 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; 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 rate 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 which are limits on the amount of year-over-year increases in the employer contribution rate. The collars are

3 percent for FY 2012, 3.5 percent for FY 2013 and then 4.5% for all subsequent years. Once the actuarial calculated rate is below the collared rate, the collars will disappear.

The SERS composite employer 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 employer rate at 1 percent greater than the previous fiscal year. This new employer rate is 5.01 percent for fiscal year 2011. If the General Assembly had not enacted Act 2010-46, the required employer contribution would have been 5.65 percent for fiscal year 2011.

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 entities, which then remit the entire employer contributions (both school entity and Commonwealth portions) to PSERS. The Commonwealth's contribution is appropriated annually from the General Fund to the Department of Education. 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.

Commonwealth contributions to SERS and 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, an 8.4 and 18 percent increase in the year-over-year contribution to each system. During fiscal year 2009, Commonwealth contributions to SERS and PSERS were $242.5 million and $360.6 million, a 2.1 percent increase and 20.1 percent reduction respectively in year-over-year contributions. During fiscal year 2010, Commonwealth contributions totaled $266.0 million for SERS, a 9.7 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, the budgeted SERS employer contribution is expected to be $296.8 million, an 11.6 percent increase, and is $408.6 million for PSERS, a 19.3 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 $681 million compared to pre-Act 120 anticipated contributions of $835 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 27.05 percent in FY 2023. After 2023 employer rates will decline slowly and will not drop below 20 percent until FY 2036. With respect to SERS, employer contributions are expected to rise to $490.8 million or 8 percent of payroll in fiscal year 2012, which is approximately the same as projected for pre-Act 120 amounts. For fiscal year 2013, the employer contribution rate is now projected to be 11.5 percent as compared to 26.7 percent under pre-Act 120 provisions. After 2013, employer rates are expected to rise every year through FY 2016 by the percentage increases as provided for in the collars and would reach a maximum rate of 28.3 percent in fiscal year 2017. After 2017, employer rates will decline slowly and not drop below 20 percent until FY 2033.

The General Assembly could again enact amendatory legislation which, among other results, could cause the employer contribution rates to be materially lower than these projected rates.

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 year 2010 investment performance reflected an improvement from the prior year with a 14.59 percent return on investments.

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

Table 21
Public School Employees Retirement Fund
(In Millions)

Year Ended June 30	Employer Contributions	Employee Contributions	Net Investment Income (Loss)	Total Deductions From Plan Net Assets[a]	Net Assets[b]
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]
2005.....................	$148	$306	$3,623	$1,966	$28,752
2006.....................	196	318	4,730	1,943	32,053
2007.....................	244	334	5,247	2,361	35,516
2008.....................	235	337	(11,061)	2,231	22,796
2009.....................	253	349	3,561	2,297	24,662

[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.

Annual actuarial valuations are required by state law to determine the employer contribution rates necessary to accumulate sufficient assets and provide for payment of future benefits. The actuary's recommendations for employer contribution rates represent a funding plan for meeting current and future retirement obligations. 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 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 conform PSERS and SERS' investment return assumptions 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……………………..		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, 2009 and June 30, 2010, respectively, provide this comparison for each of the five fiscal years then ended as shown in the following table. The SERS and PSERS audited financial statements 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
2009	$643,861	$253,250	39%
2008	584,248	235,288	40
2007	617,253	243,936	39
2006	548,745	196,420	36
2005	319,190	148,375	46
2004	105,229	106,703	100

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

Other Post-Employment Benefits

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

The General Assembly, based upon the Governor's request, annually appropriates funds to meet the obligation to pay current retiree health care benefits on a "pay-as-you-go" basis. Retiree health care expenditures are currently funded by the Commonwealth's General Fund (approximately 48 percent), and by Federal, Other and Special Funds. Commonwealth costs for such benefits totaled $521 million in fiscal year 2007, $565 million in fiscal year 2008, $541 million in fiscal year 2009, and $563 million in fiscal year 2010.

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 prior contribution rate of 2 percent increased to 3 percent in October 2010. Any future collectively bargained increases in the employee contribution rate for active employees will also automatically cover all retirees who retire on or after July 1, 2007.
3. REHP-eligible employees retiring after July 1, 2004 will have their post employment benefits changed automatically as such 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), 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 have a two-tiered co-payment structure and those retiring on or after July 1, 2007 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 have the option to enroll in a Medicare HMO or Medicare PPO.

Governmental Accounting Standards Board Statement No. 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, and therefore the Commonwealth's financial statements for prior fiscal years do not reflect these requirements.**

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

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

1. The estimated unfunded actuarial accrued liability ("UAAL") as of June 30, 2007 decreased from $13.778 billion to $8.529 billion.

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

3. The estimated OPEB liability at June 30, 2008 decreased from $477 million to $0.

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

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

During fiscal years 2009 and 2010, no additional contributions were made to either the REHP Trust Account or the RPSPP Trust Account. As of June 30, 2010, the combined balance in those two trust accounts (based on the initial value) and the restricted receipt accounts was $482.5 million. The Hay Group actuarial valuation for FYE June 30, 2009 (from February 2008) was updated to reflect updated claims information, updated plan member census and a slower decline in the health care cost inflation rates from those included in the February 2008 valuation. Also, for the fiscal year ended June 30, 2009, the Commonwealth changed its discount rate assumptions for both the REHP (from 8.5 percent to 5.0 percent) and the RPSPP (from 6.2 percent to 5.0 percent).

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

1. The combined unfunded actuarial accrued liability (" UAAL") as of June 30, 2008 is $14.752 billion. The UAAL for the REHP consists of an actuarial accrued liability of $12.863 billion less $60 million of plan assets. The UAAL for the RPSPP consists of an actuarial accrued liability of $2.0 billion less $51 million of plan assets.

2. The annual required contribution ("ARC") for the fiscal year ended June 30, 2009 is $962 million. The REHP ARC was $819 million and the RPSPP ARC was $143 million.

3. The OPEB liability as of June 30, 2009 is $407 million consisting of $313 million for the REHP and $94 million for the RPSPP.

For the REHP, the ARC was $818.51 million and the amount contributed was $505.56 million, with a resulting REHP OPEB liability of $312.95 million as of June 30, 2009. For the RPSPP, the ARC was $143.39 million and the amount contributed was $54.57 million. In addition, when the beginning RPSPP OPEB liability of $5.5 million is included, the resulting RPSPP OPEB liability is $94.32 million as of June 30, 2009. On a combined basis, including both the REHP and the RPSPP, the ARC for the fiscal year ended June 30, 2009 is $961.90 million and the amount contributed is $560.13 million, resulting in an ending OPEB liability of $407.27 million as of June 30, 2009. Based on this valuation, the Commonwealth estimates, that the combined OPEB liability will increase to $773 million as of June 30, 2010.

Unemployment Compensation

The Commonwealth, as of June 30, 2010, had outstanding $3,008.6 million in loans from the Federal Unemployment Account to the Pennsylvania Unemployment Compensation Trust Fund (the "UC Fund"). At that time, the Commonwealth was one of 25 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. However, under ARRA, a waiver of interest on federal loans extends through the end of calendar year 2010. Beginning in January 2011, interest will accrue on outstanding loan amounts, including future loans. Pursuant to existing Commonwealth law, an interest tax of 0.28 percent will automatically take effect in January 2011 and will be 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 will likely grow to an estimated $7,129.0 million by 2018. Mandatory FUTA loan repayments are expected to begin in fiscal year 2012 and grow from an estimated $103 million that year to an estimated $820 million annually by 2018. Additional voluntary loan repayments from the UC Fund would likely grow from an estimated $1,838 million in fiscal year 2011 to $2,085 by fiscal year 2018 and the estimated interest on the outstanding UC Fund loans would grow from $198 million annually in fiscal year 2011 to $315 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, Governor Rendell convened the Unemployment Compensation Advisory Council and charged them 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 $438.5 million in bonds outstanding as of June 30, 2010.

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 $1,075.8 million in revenue bond debt outstanding as of June 30, 2010.

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 $1,858.0 million of debt outstanding as of June 30, 2010.

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 $25.4 million in bonds outstanding as of June 30, 2010.

Pennsylvania Higher Education Assistance Agency ("PHEAA"). The PHEAA makes or guarantees student loans to students or parents, or to lending institutions or post-secondary institutions. Debt service on the bonds is paid by loan interest and repayments and other agency revenues. The PHEAA had $8,435.4 million in bonds outstanding as of June 30, 2010.

Pennsylvania Higher Educational Facilities Authority ("PHEFA"). The PHEFA is a public corporation of the Commonwealth established to finance college facilities. As of June 30, 2010, the PHEFA had $6,056.1 million in revenue bonds and notes outstanding payable from the lease rentals or loan repayments of the projects financed. Some of the lessees or borrowers, although private institutions, receive grants and subsidies from the Commonwealth.

Pennsylvania Industrial Development Authority ("PIDA"). The PIDA is a public corporation of the Commonwealth established for the purpose of financing economic development. The PIDA had $363.4 million in revenue bond debt outstanding on June 30, 2010, to which all of its revenues are pledged.

Pennsylvania Infrastructure Investment Authority ("Pennvest"). Pennvest was created in 1988 to provide low-interest rate loans and grants for the purpose of constructing new and improving existing water supply and sewage disposal systems to protect the health and safety of the citizens of the Commonwealth and to promote economic development within the Commonwealth. Loans and grants are available to local governments and, in certain circumstances, to private companies. The Pennvest bonds are secured by principal repayments and interest payments on Pennvest loans. Pennvest had $23.1 million of revenue bonds outstanding as of June 30, 2010.

Pennsylvania Turnpike Commission ("PTC"). The PTC operates the Pennsylvania Turnpike System ("System"). Its outstanding indebtedness, $6,308.8 million as of June 30, 2010, 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 $2,372.2 million of revenue bonds outstanding as of June 30, 2010.

CITY OF PHILADELPHIA - PICA

The Pennsylvania Intergovernmental Cooperation Authority ("PICA") was created by Commonwealth legislation in 1991 to assist the City of Philadelphia, the Commonwealth's largest city, in remedying its fiscal emergencies. PICA is authorized to provide assistance through the issuance of funding debt and to make factual findings and recommendations to Philadelphia concerning its budgetary and fiscal affairs. This financial assistance has included grants used by the City for defeasance of certain City general obligation bonds, funding of capital projects and the liquidation of the cumulative general fund balance deficit of the City of Philadelphia as of June 30, 1992, of $224.9 million. At this time, Philadelphia is operating under a five-year fiscal plan approved by PICA on September 16, 2009.

No further bonds may be issued by PICA for the purpose of either financing capital projects or a deficit, as the authority for such bond issuance expired December 31, 1994. PICA's authority to issue debt for the purpose of financing a cash flow deficit expired on December 31, 1995. Its ability to refund existing outstanding debt is unrestricted. PICA had $533.9 million in special tax revenue bonds outstanding as of June 30, 2010. 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

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*)

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 cases 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. Exceptions have been filed on behalf of the Commonwealth. The matter is now being briefed by the parties for en banc argument before Commonwealth Court which is scheduled for September, 2010.

The principal focus of the new 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 Case

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

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

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

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

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

The Commonwealth believes the Commonwealth Court committed both factual and legal errors in rendering these decisions and 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.

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

RATINGS

Moody's Investors Service ("Moody's") has assigned its municipal bond rating of "Aa1" to the Bonds and Fitch Ratings ("Fitch") has assigned its municipal bond rating of "AA+" to the Bonds.

The Commonwealth has elected not to pursue a municipal bond rating from Standard and Poor's Ratings Services, a division of the McGraw-Hill Companies ("S&P"), due to a disagreement concerning the provisions of the proposed contractual agreement between the Commonwealth and S&P.

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."

TAX EXEMPTION AND OTHER TAX MATTERS

Federal Income Tax Treatment of Third Series A Bonds and Third Series C Bonds

Opinion of Bond Counsel. In the opinion of Stradley Ronon Stevens & Young, LLP ("Bond Counsel"), interest, including accrued original issue discount ("OID"), on the Third Series A Bonds and the Third Series C Bonds (together, the "Tax-Exempt Bonds") (a) is not included in gross income for federal income tax purposes, and (b) is neither an item of tax preference nor taken into account in determining adjusted current earnings for purposes of the federal alternative minimum income tax imposed on individuals and corporations. Except as discussed below regarding OID, no other opinion is expressed by Bond Counsel regarding the tax consequences of the ownership of or the receipt or accrual of interest on the Tax-Exempt Bonds.

Bond Counsel's opinion with respect to the Tax-Exempt Bonds will be given in reliance upon certifications by representatives of the Commonwealth as to certain facts relevant to both the opinion and requirements of the Code. Bond Counsel's opinion is subject to the condition that there is compliance subsequent to the issuance of the Tax-Exempt Bonds with all requirements of the Code that must be satisfied in order for interest thereon to remain excludable from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with the current provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Tax-Exempt Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Tax-Exempt Bonds. Failure by the Commonwealth to comply with such covenants, among other things, could cause interest on the Tax-Exempt Bonds to be included in gross income for federal income tax purposes retroactively to their date of issue.

Original Issue Discount. The initial public offering prices of each maturity of the Third Series C Bonds maturing in the years 2012, 2019 and 2024 through 2030 (the "OID Bonds") will be less than their stated principal amount. In the opinion of Bond Counsel, under current law, the difference between the stated principal amount and the initial offering price of each maturity of the OID Bonds to the public (excluding bond houses and brokers) at which a substantial amount of such maturity of such Tax-Exempt Bonds is sold will constitute OID. The offering prices set forth on the inside cover of this Official Statement for the OID Bonds are expected to be the initial offering price to the public at which a substantial amount of each maturity of such Tax-Exempt Bonds are sold.

Under the Code, for purposes of determining the holder's adjusted basis in an OID Bond, OID treated as having accrued while the holder holds the Tax-Exempt Bond will be added to the holder's basis. OID will accrue on a constant yield-to-maturity method. The adjusted basis will be used to determine taxable gain or loss upon the sale or other disposition (including redemption or payment at maturity) of an OID Bond.

Prospective purchasers of the OID Bonds should consult their own tax advisors with respect to the calculation of accrued OID and the state and local tax consequences of owning or disposing of OID Bonds.

Original Issue Premium. Tax-Exempt Bonds purchased, whether upon issuance or otherwise, for an amount (excluding any amount attributable to accrued interest) in excess of their principal amount will be treated for federal income tax purposes as having amortizable bond premium. A holder's basis in such a Tax-Exempt Bond must be reduced by the amount of premium which accrues while such Tax-Exempt Bond is held by the holder. No deduction for such amount will be allowed, but it generally will offset interest on the Tax-Exempt Bonds while so held. Purchasers of such Tax-Exempt Bonds should consult their own tax advisors as to the calculation, accrual and treatment of amortizable bond premium and the state and local tax consequences of holding such Tax-Exempt Bonds.

Tax Consequences Generally. In addition to the matters addressed above, prospective purchasers of the Tax-Exempt Bonds should be aware that the ownership of tax-exempt obligations may result in collateral Federal income tax consequences to certain taxpayers, including without limitation financial institutions, property and casualty insurance companies, S corporations, foreign corporations subject to the branch profits tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Tax-Exempt Bonds should consult their tax advisors as to the applicability and impact of such consequences.

THE FOREGOING SUMMARY AS TO THE TAX EXEMPT BONDS IS NOT INTENDED AS AN EXHAUSTIVE RECITAL OF THE POTENTIAL TAX CONSEQUENCES OF OWNING THE TAX EXEMPT BONDS. PROSPECTIVE PURCHASERS OF THE TAX EXEMPT B BONDS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF OWNING THE TAX EXEMPT BONDS. ANY STATEMENTS REGARDING TAX MATTERS HEREIN CANNOT BE RELIED UPON BY ANY PERSON TO AVOID TAX PENALTIES.

Federal Income Tax Treatment of Third Series B Bonds

Opinion of Bond Counsel. In the opinion of Bond Counsel, interest on the Third Series B Bonds will be included in gross income for Federal income tax purposes.

Tax Consequences Generally. The following is a discussion of certain material United States federal income tax consequences of the ownership and disposition of the Third Series B Bonds. This summary is based on the Code, and existing and proposed Treasury regulations, revenue rulings, administrative interpretations and judicial decisions, all as currently in effect and all of which are subject to change, possibly with retroactive effect. Except as specifically set forth in this subsection, this summary deals only with Third Series B Bonds purchased by a United States holder, as defined below, at original issuance and held as capital assets within the meaning of Section 1221 of the Code. It does not discuss all of the tax consequences that may be relevant to such a holder in light of his particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, regulated investment companies, dealers in securities or foreign currencies, traders in securities that elect the mark-to-market accounting method, persons holding the Third Series B Bonds as part of a hedging transaction, "straddle," conversion transaction, or other integrated transaction, or United States holders whose functional currency, as defined in Section 985 of the Code, is not the United States dollar. This discussion does not address United States estate tax consequences of holding the Third Series B Bonds and, except as specifically described, does not address either tax consequences to pension plans or foreign investors or any aspect of state or local taxation with respect to the Third Series B Bonds. Persons considering the purchase of the Third Series B Bonds should consult with their own tax advisors concerning the application of the United States federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign jurisdiction. The opinion of Bond Counsel with respect to the Third Series B Bonds, the form of which is attached in Appendix G, will not address such matters.

If a partnership or other entity classified as a partnership for United States federal income tax purposes holds Third Series B Bonds, the tax treatment of the partnership and each partner generally will depend on the activities of the partnership and the status of the partner. Partnerships acquiring Third Series B Bonds, and partners in such partnerships, should consult their tax advisors.

Third Series B Bonds are Build America Bonds. The Commonwealth will make an irrevocable election to treat the Third Series B Bonds as Build America Bonds. As a result of this election, interest on the Third Series B Bonds will be includable in gross income of the holders thereof for federal income tax purposes and the holders of the Third Series B Bonds will not be entitled to any tax credits as a result of either ownership of the Third Series B Bonds or receipt of any interest payments on the Third Series B Bonds. Holders of the Third Series B Bonds should consult their tax advisors with respect to the inclusion of interest on the Third Series B Bonds in gross income for federal income tax purposes.

United States Holder. As used in the sections below, the term "United States holder" means a beneficial owner of a Third Series B Bond that is for United States federal income tax purposes (a) a citizen or resident of the United States, (b) a corporation (including an entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (c) an estate, the income of which is includible in gross income for United States federal income tax purposes, regardless of its source, or (d) a trust if (i) a court within the United States can exercise primary supervision over the administration of such trust and one or more United States persons have the authority to control all substantial decisions of such trust or (ii) the trust has in effect a valid election to be treated as a domestic trust for United States federal income tax purposes. Further, as described below, a non-United States holder is any holder of a Third Series B Bond that is not a United States holder.

Taxation of Interest. Interest paid on a Third Series B Bond generally will be taxable to a United States holder as ordinary interest income at the time it accrues or is received, in accordance with the United States holder's method of tax accounting. In addition, such interest will constitute "net investment income" which, after December 31, 2012, may be taxed, subject to certain adjustments and limitations, in accordance with the Health Care and Education Reconciliation Act of 2010.

Sale, Exchange or Retirement of the Third Series B Bonds. Upon the sale, exchange or retirement of a Third Series B Bond, a United States holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (other than amounts representing accrued and unpaid interest) and the United States holder's adjusted tax basis in the Third Series B Bond. A United States holder's adjusted tax basis in a Third Series B Bond will equal the cost of the Third Series B Bond to that holder, increased by the amount of any original issue discount previously included in income by such holder with respect to such Third Series B Bond and reduced by any principal payments received by the holder or by any amortized premium.

Gain or loss recognized on the sale, exchange or retirement of a Third Series B Bond generally will be capital gain or loss, and will generally be long-term capital gain or loss if at the time of sale, exchange or retirement the Third Series B Bond has been held for more than one year. Through December 31, 2010, non-corporate taxpayers are subject to reduced maximum rates on long-term capital gains and generally are subject to tax at ordinary income rates on short-term capital gains. The deductibility of capital losses is subject to certain limitations. Prospective investors should consult their own tax advisor concerning these tax law provisions.

Any amount realized on the sale, exchange or retirement of a Third Series B Bond that is attributable to accrued interest will be taxable as interest unless previously taken into account. In addition, the tax treatment of the receipt of any redemption premium resulting from the exercise of an extraordinary optional redemption of the Third Series B Bonds (See "Extraordinary Optional Redemption-Third Series B Bonds.) is unclear, and prospective purchasers of the Third Series B Bonds are urged to consult their tax advisors regarding the tax treatment of any such payment.

Defeasance or material modification of the terms of any Third Series B Bond may result in a deemed reissuance thereof, in which event a beneficial owner of the defeased Third Series B Bond generally will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the beneficial owner's adjusted tax basis in the Taxable Bond. Prospective purchasers of the Third Series B Bonds are urged to consult their tax advisors regarding the foregoing matters.

Original Issue Discount or Premium. "Original issuer discount" will arise for United States federal income tax purposes in respect of any Third Series B Bond if its stated redemption price at maturity exceeds its issue price by more than a de minimis amount (as determined for tax purposes). The stated redemption price at maturity of a Third Series B Bond is the sum of all scheduled amounts payable on such Third Series B Bond other than qualified stated interest. United States holders of Third Series B Bonds generally will be required to include any original issue discount in income for United States federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, United States holders of Third Series B Bonds issued with original issue discount generally will be required to include in income increasingly greater amounts of original issue discount in successive accrual periods.

“Premium” generally will arise for United States federal income tax purposes in respect of any Third Series B Bond purchased, whether upon issuance or otherwise, for an amount (excluding any amount attributable to accrued interest) in excess of their principal amount. Third Series B Bonds so purchased will be treated for federal income tax purposes as having amortizable bond premium. A holder’s basis in such a Third Series B Bond must be reduced by the amount of premium which accrues while such Third Series B Bond is held by the holder. A United States holder of a Third Series B Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such United States holder, to amortize such premium, using a constant yield method over the term of such Third Series B Bond. Purchasers of Third Series B Bonds should consult their own tax advisors as to the calculation, accrual and treatment of amortizable bond premium and the state and local tax consequences of holding such Third Series B Bonds.

Taxation of Tax-Exempt Investors. Special considerations apply to employee benefit plans and other investors (“Tax-Exempt Investors”) that are subject to tax only on their unrelated business taxable income (“UBTI”). A Tax-Exempt Investor’s income from the Third Series B Bonds generally will not be treated as UBTI under current law, so long as such Tax-Exempt Investor’s acquisition of such Third Series B Bonds is not debt-financed. Tax-Exempt Investors should consult with their own tax advisors concerning these special considerations.

The Employees Retirement Income Security Act of 1974, as amended (“ERISA”), and the Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA or tax-qualified retirement plans and individual retirement accounts under the Code (collectively, the “Plans”) and persons who, with respect to a Plan, are fiduciaries or other “parties in interest” within the meaning of ERISA or “disqualified persons” within the meaning of the Code. All fiduciaries of Plans, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any Third Series B Bonds.

Non-United States Holders. The following applies to a holder if the holder is a beneficial owner of a Third Series B Bond and is not a United States holder or a United States partnership (or entity treated as a partnership for United States federal income tax purposes) (hereinafter a “non-United States holder”). Special rules which will not be addressed herein may apply if a non-United States holder is a “controlled foreign corporation” or a “passive foreign investment company” for United States federal income tax purposes. If a non-United States holder is such an entity, the non-United States holder should consult its tax advisor to determine the tax consequences that may be relevant to the non-United States holder.

All payments on a Third Series B Bond made to a non-United States holder and any gain realized on a sale, exchange, or other disposition of a Taxable will be exempt from United States federal income and withholding tax, provided that:

- the non-United States holder does not own, actually or constructively, 10% or more of the Commonwealth’s outstanding capital or profit interests within the meaning of the Code and the Treasury regulations;
- the non-United States holder is not a controlled foreign corporation related, directly or indirectly, to the Commonwealth through stock ownership;
- the non-United States holder is not a bank whose receipt of interest on the Third Series B Bond is described in Section 88l(c)(3)(a) of the Code;
- the non-United States holder has fulfilled the certification requirement described below;
- such payments are not effectively connected with the conduct by the non-United States holder of a trade or business in the United States; and
- in the case of gain realized on the sale, exchange, or other disposition of a Third Series B Bond, if the non-United States holder is a nonresident alien individual, the non-United States holder is not present in the United States for 183 or more days in the taxable year of the disposition where certain other conditions are met.

The certification requirement referred to above will be fulfilled if the non-United States holder provides its name and address to the Trustee on IRS Form W-8BEN (or an acceptable substitute), and certifies, under penalties of perjury, that the holder is not a United States person.

If the non-United States holder is engaged in a trade or business in the United States, and if payments on a Third Series B Bond are effectively connected with the conduct of that trade or business, or are attributable to a permanent establishment maintained by the non-United States holder in the United States, the holder will generally be taxed in the same manner as a United States holder (see "United States Holder" above), except that the non-United States holder will be required to provide a properly executed IRS Form W-8ECI in order to claim an exemption from or reduction of withholding tax.

Recently proposed legislation could impose United States withholding tax on payments of interest and proceeds of sale in respect of the Third Series B Bonds to a non-United States holder that does not comply with certain disclosure requirements related to the equity ownership of the non-United States holder by United States persons. If payment of withholding taxes were required, non-United States holders that were eligible for an exemption from United States withholding taxes with respect to such interest and proceeds would be required to seek a refund from the IRS to obtain the benefit of such exemption. It is unclear whether this legislation will be enacted and if so in what form.

NON-UNITED STATES HOLDERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO OTHER TAX CONSEQUENCES OF THE OWNERSHIP OF THE THIRD SERIES B BONDS, INCLUDING THE POSSIBLE IMPOSITION OF A 30% BRANCH PROFITS TAX.

Information Reporting And Backup Withholding. Information returns may be filed with the Internal Revenue Service ("IRS") in connection with payments on the Third Series B Bonds and the proceeds from a sale, exchange, or other disposition of the Third Series B Bonds. Holders may receive statements containing the information reflected on these returns. If the holder is a United States holder, the holder may be subject to United States backup withholding tax on these payments if it fails to provide its taxpayer identification number to the paying agent and comply with certification procedures or otherwise establish an exemption from backup withholding. If the holder is not a United States holder, it may be subject to United States backup withholding tax on these payments unless the holder complies with certification procedures to establish that the holder is not a United States person. The certification procedures required of the holder to claim the exemption from withholding tax on certain payments on the Third Series B Bonds described above will satisfy the certification requirements necessary to avoid the backup withholding tax as well.

The amount of any backup withholding made from a payment will be allowable as a credit against the holder's United States federal income tax liability and may entitle the holder to a refund, provided that the holder timely furnishes the required information to the IRS.

Certain State and Local Tax Consequences. In addition to the United States federal income tax consequences described above, prospective investors should consider the potential state and local tax consequences of an investment in the Third Series B Bonds. State income tax law may vary substantially from state to state, and this discussion does not purport to describe any aspect of the income tax laws of any state or locality. Therefore, potential purchasers should consult their own tax advisors with respect to the various state and local tax consequences of an investment in the Third Series B Bonds.

THE FOREGOING SUMMARY OF POSSIBLE TAX CONSEQUENCES IS NOT EXHAUSTIVE OR COMPLETE. ALL PURCHASERS OF THE BONDS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE POSSIBLE FEDERAL, STATE AND LOCAL INCOME TAX CONSEQUENCES OF OWNERSHIP OF THE THIRD SERIES B BONDS.

Third Series B Bonds and Tax-Exempt Bonds.

Bond Counsel's opinions represent its legal judgment based in part upon the representations and covenants referenced therein and its review of existing law, but are not a guarantee of result or binding on the IRS or the courts. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may come to Bond Counsel's attention after the date of its opinions or to reflect any changes in law or the interpretation thereof that may occur or become effective after such date.

The IRS has a program to audit state and local government obligations to determine, as applicable, whether the interest thereon is includible in gross income for federal income tax purposes or whether such obligations qualify for certain designations, such as "Build America Bonds." If the IRS does audit the Bonds, under current IRS procedures, the IRS will treat the Commonwealth as the taxpayer and the owners of the Bonds will have only limited rights, if any, to participate.

There are many events that could affect the value and liquidity or marketability of the Bonds after their issuance, including but not limited to public knowledge of an audit of the Bonds by the IRS, a general change in interest rates for comparable securities, a change in federal or state income tax rates, legislative or regulatory proposals affecting state and local government securities and changes in judicial interpretation of existing law. In addition, certain tax considerations relevant to owners of Bonds who purchase Bonds after their issuance may be different from those relevant to purchasers upon issuance. Neither the opinions of Bond Counsel nor this Official Statement purports to address the likelihood or effect of any such potential events or such other tax considerations and purchasers of the Bonds should seek advice concerning such matters as they deem prudent in connection with their purchase of Bonds.

The Commonwealth will issue its certificates regarding the facts, estimates and circumstances in existence on the date of delivery of the Bonds and regarding the anticipated use of the proceeds of the Bonds. The Commonwealth will certify that on the basis of the facts, estimates and circumstances in existence on the date of issuance of the Bonds, the Commonwealth does not reasonably expect to use the proceeds of the Bonds in a manner that would cause the Bonds to be or become "arbitrage bonds" or "private activity bonds" as those terms are defined in Section 148 and Section 141 of the Code.

Certain Pennsylvania Tax Matters

In the opinion of Bond Counsel, 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, but these exemptions shall not extend to gift, estate, succession or inheritance taxes or any other taxes not levied directly on the Bonds or the interest thereon. Under the laws of the Commonwealth, profits, gains or income derived from the sale, exchange or other disposition of the Bonds are subject to State and local taxation within the Commonwealth of Pennsylvania.

PROSPECTIVE PURCHASERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE STATUS OF INTEREST ON THE BONDS UNDER THE TAX LAWS OF ANY STATE OTHER THAN THE COMMONWEALTH.

Regulations, Future Legislation

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

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

THE ABOVE SUMMARY OF POSSIBLE TAX CONSEQUENCES IS NOT EXHAUSTIVE OR COMPLETE. ALL PURCHASERS OF THE BONDS SHOULD CONSULT THEIR TAX ADVISORS REGARDING

THE POSSIBLE FEDERAL, STATE AND LOCAL INCOME TAX CONSEQUENCES OF OWNERSHIP OF THE BONDS. ANY STATEMENTS REGARDING TAX MATTERS HEREIN CANNOT BE RELIED UPON BY ANY PERSON TO AVOID TAX PENALTIES.

UNDERWRITING

After competitive bidding on December 15, 2010, the Third Series A Bonds and the Third Series C Bonds were awarded to a selling group represented by Citigroup Global Markets (the "Third Series A and the Third Series C Underwriters") for a purchase price of $205,584,198.45 which is equivalent to the principal amount of the Bonds, less Underwriters' discount of $517,040.70 plus original issue premium of $22,706,239.15. The Third Series B Bonds were awarded to a selling group represented by Barclays Capital, Inc. (the "Third Series B Underwriters") for a purchase price of $461,850,338.45 which is equivalent to the principal amount of the Third Series B Bonds, less Underwriters' discount of $3,737,506.05 less original issue discount of $1,017,155.50. The Third Series A Underwriters, the Third Series B Underwriters, and the Third Series C Underwriters have supplied the public offering yields and prices of the Bonds shown on the inside cover hereof. If all of the Third Series A Bonds and the Third Series C Bonds are resold to the public at such yields, the underwriters' discount will approximate 0.2819274 percent of the aggregate principal amount of the Third Series A Bonds and the Third Series C Bonds. If all of the Third Series B Bonds are resold to the public at such yields, the underwriters' discount will approximate 0.8010000 percent of the aggregate principal amount of the Third Series B Bonds. The Third Series A Underwriters, the Third Series B Underwriters and the Third Series C Underwriters may change the public offering yields from time to time.

LEGALITY FOR INVESTMENT

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

FINANCIAL ADVISOR

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

LEGAL MATTERS

All legal matters incident to the authorization and issuance of the Bonds are subject to the approval of the Attorney General of the Commonwealth of Pennsylvania, The Honorable Tom Corbett, and of Stradley Ronon Stevens & Young 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, Ms. Mary Soderberg, Attn.: Mr. Richard Dreher, 7th Floor, Bell Tower, 303 Walnut Street, Harrisburg, Pennsylvania 17101-1808 (Telephone (717) 787-7342). The annual Comprehensive Annual Financial Report ("CAFR"), a summary of the enacted fiscal year 2011 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 23 under the heading "OTHER STATE-RELATED OBLIGATIONS."

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

Event Disclosure. The Continuing Disclosure Agreement requires the Commonwealth to provide timely notice to the MSRB of the following events 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 events affecting the tax-exempt status of the security;
7. Modifications to rights of security holders, if material;
8. Bond calls, if material and tender offers;
9. Defeasances;
10. Release, substitution or sale of property securing repayment of the securities, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the obligated person;
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 obligated person, 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.

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

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

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

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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 August 31, 2010 .... $ 32,604,981,495

(i) The amount of outstanding net debt as of the end of the preceding fiscal year .... $ 8,729,581,139

(ii) The amount of such net debt as of August 31, 2010....................... $ 8,553,447,438

(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, 2010 .... $ 48,505,270,178

(iv) The amount of such debt scheduled to be repaid during the remainder of the current fiscal year .... $ 404,065,065

(v) The amount of debt authorized by law to be issued, but not yet incurred .... $ 74,470,275,468

(vi) The amount of outstanding obligations excluded from outstanding debt as self sustaining pursuant to Article VIII, Section 7(c)(1), (2) and (3) of the Constitution of Pennsylvania .... $ 8,410,073,592

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

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

(Seal)

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SELECTED DATA ON THE COMMONWEALTH OF PENNSYLVANIA

General

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

Pennsylvania's agricultural industries remain an important component of the commonwealth's economic structure, accounting for more than $5.8 billion in crop and livestock products annually. In 2009, agribusiness and food related industries reached export sales surpassing $1.5 billion in economic activity. Over 63,000 farms form the backbone of the State's agricultural economy. Farmland in Pennsylvania includes over four million acres of harvested cropland and three million acres of pasture and farm woodlands - nearly one-third of the commonwealth's total land area. Agricultural diversity in the commonwealth is demonstrated by the fact that Pennsylvania ranks among the top ten states in the production of a variety of agricultural products.

Pennsylvania's extensive public and private forests provide a vast source of material for the lumber, furniture, and paper products industries. The forestry and related industries accounts for 1.5% of employment with economic activity of nearly $5 billion in sales in domestic and international trade. Additionally, the commonwealth derives a good water supply from underground sources, abundant rainfall, and a large number of rivers, streams, and lakes. Other natural resources include major deposits of coal, petroleum, and natural gas. Annually, about 77 million tons of anthracite and bituminous coal, 168 billion cubic feet of natural gas, and about 3.6 million barrels of oil are extracted from Pennsylvania.

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

Population

The commonwealth is highly urbanized. Of the commonwealth's 2009 mid-year population estimate, 79 percent resided in the 15 Metropolitan Statistical Areas ("MSAs") of the commonwealth. The largest MSAs in the commonwealth are those that include the cities of Philadelphia and Pittsburgh, which together contain almost 44 percent of the State's total population. The population of Pennsylvania, 12.6 million people in 2009, according to the U.S. Bureau of the Census, represents a population growing slower than the nation with a higher portion than the nation or the region comprised of persons 45 or over. The following tables present the population trend from 2000 to 2009 and the age distribution of the population for 2009.

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

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

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

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

Age	Pennsylvania	Middle Atlantic Region[(a)]	United States
Under 5 years	5.9 %	6.2 %	6.9 %
5-24 years	25.9	26.1	27.3
25-44 years	25.3	26.7	27.1
45-64 years	27.5	27.0	25.8
65 years and over	15.4	14.0	12.9

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

Employment

Non-agricultural employment in Pennsylvania over the 10 years ending in 2009 decreased at an average annual rate of 0.1 percent compared with a 0.1 percent rate for the Middle Atlantic region and 0.07 percent rate for the U.S. The following table shows employment trends from 2000 through 2009.

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

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

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

Non-manufacturing employment in Pennsylvania has increased in recent years and reached 89.8 percent of total employment by 2009. Consequently, manufacturing employment constitutes a diminished share of total employment within the commonwealth. Manufacturing, contributing 10.2 percent of 2009 non-agricultural employment, has fallen behind the services sector, the trade sector and the government sector as the 4th largest single source of employment within the commonwealth. In 2009, the services sector accounted for 47.0 percent of all non-agricultural employment while the trade sector accounted for 15.1 percent. The following table shows trends in employment by sector for Pennsylvania from 2005 through 2009.

Non-Agricultural Establishment Employment by Sector
Pennsylvania
2005-2009

(In Thousands)

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

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

The following table presents the percentages of non-agricultural employment in various sectors in Pennsylvania and the United States in 2009.

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

	2009 Calendar Year	
	Pennsylvania	United States
Manufacturing.......................................	10.2%	9.1%
Trade [a]	15.1	15.3
Finance [b]...	5.7	5.9
Services...	47.0	44.0
Government...	13.5	17.2
Utilities[c]	4.1	3.7
Construction..	4.0	4.6
Mining...	0.4	0.2
Total[d]	100.0%	100.0%

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

Within the manufacturing sector of Pennsylvania's economy, which now accounts for about one-tenth of total non-agricultural employment in Pennsylvania, the fabricated metals industries employed the largest number of workers. Employment in fabricated metals industries was 13.8 percent of Pennsylvania manufacturing employment but only 1.4 percent of total Pennsylvania non-agricultural employment in 2009. The following table shows trends in manufacturing employment by industry for Pennsylvania from 2005 through 2009.

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

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

[(a)] Discrepancies occur due to rounding
Source: U.S. Department of Labor, Bureau of Labor Statistics.

Unemployment

Pennsylvania's annual average unemployment rate was equivalent to the national average throughout the 2000's. Slower economic growth caused the unemployment rate in the commonwealth to rise to 8.1 percent in 2009 compared to 4.3 percent annual unemployment rate in 2007. As of September 2010, the most recent month for which figures are available, Pennsylvania had a seasonally adjusted annual unemployment rate of 9.0 percent. The following table represents the annual non-adjusted unemployment rate in Pennsylvania, the Middle Atlantic Region, and the United States from 2000 through 2009.

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

Calendar Year	Pennsylvania	Middle Atlantic Region[(a)]	United States
2000	4.2	4.2	4.0
2001	4.8	4.7	4.7
2002	5.6	5.9	5.8
2003	5.7	6.1	6.0
2004	5.4	5.5	5.5
2005	5.0	4.9	5.1
2006	4.5	4.6	4.6
2007	4.3	4.4	4.6
2008	5.3	5.3	5.8
2009	8.1	8.5	9.3

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

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

Commonwealth of Pennsylvania
Thirty Largest
Non-Governmental Employers
December 2009

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

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

Personal Income

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

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

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

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

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

	Per Capita Income			As % of US	
Calendar Year	PA	Mideast Region[a]	U.S.	PA	Mideast Region[a]
2000	$ 30,110	$ 34,183	$ 30,318	99 %	113 %
2001	30,667	35,122	31,145	98	113
2002	31,436	35,489	31,462	100	113
2003	32,322	36,289	32,271	100	112
2004	33,708	38,281	33,881	99	113
2005	34,791	40,090	35,424	98	113
2006	37,078	43,095	37,698	98	114
2007	38,738	45,767	39,392	98	116
2008	39,762	46,900	40,166	99	117
2009	39,578	45,893	39,138	101	117

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

The following table presents growth rates in personal income and selected components of personal income for Pennsylvania, the Mideast Region and the United States from 2005 through 2009.

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

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

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

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

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

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

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

Market and Assessed Valuation of Real Property

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

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

Valuations of Taxable Real Property
1999-2008

Year	Market Value[(a)]	Assessed Valuation	Ratio of Assessed Valuation to Market Value[(a)]
1999	$ 390,136,860,900	$ 208,896,190,899	53.5
2000	420,041,123,600	241,060,798,812	57.4
2001	430,102,389,400	310,111,943,560	72.1
2002	467,311,009,700	325,451,064,697	69.6
2003	478,362,689,800	348,726,965,926	72.9
2004	523,595,339,800	352,014,550,601	67.2
2005	533,700,991,300	378,014,057,174	70.8
2006	605,769,012,300	393,871,997,992	65.0
2007	619,340,351,400	400,430,467,002	64.7
2008	695,569,570,400	406,621,957,397	58.4

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

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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.

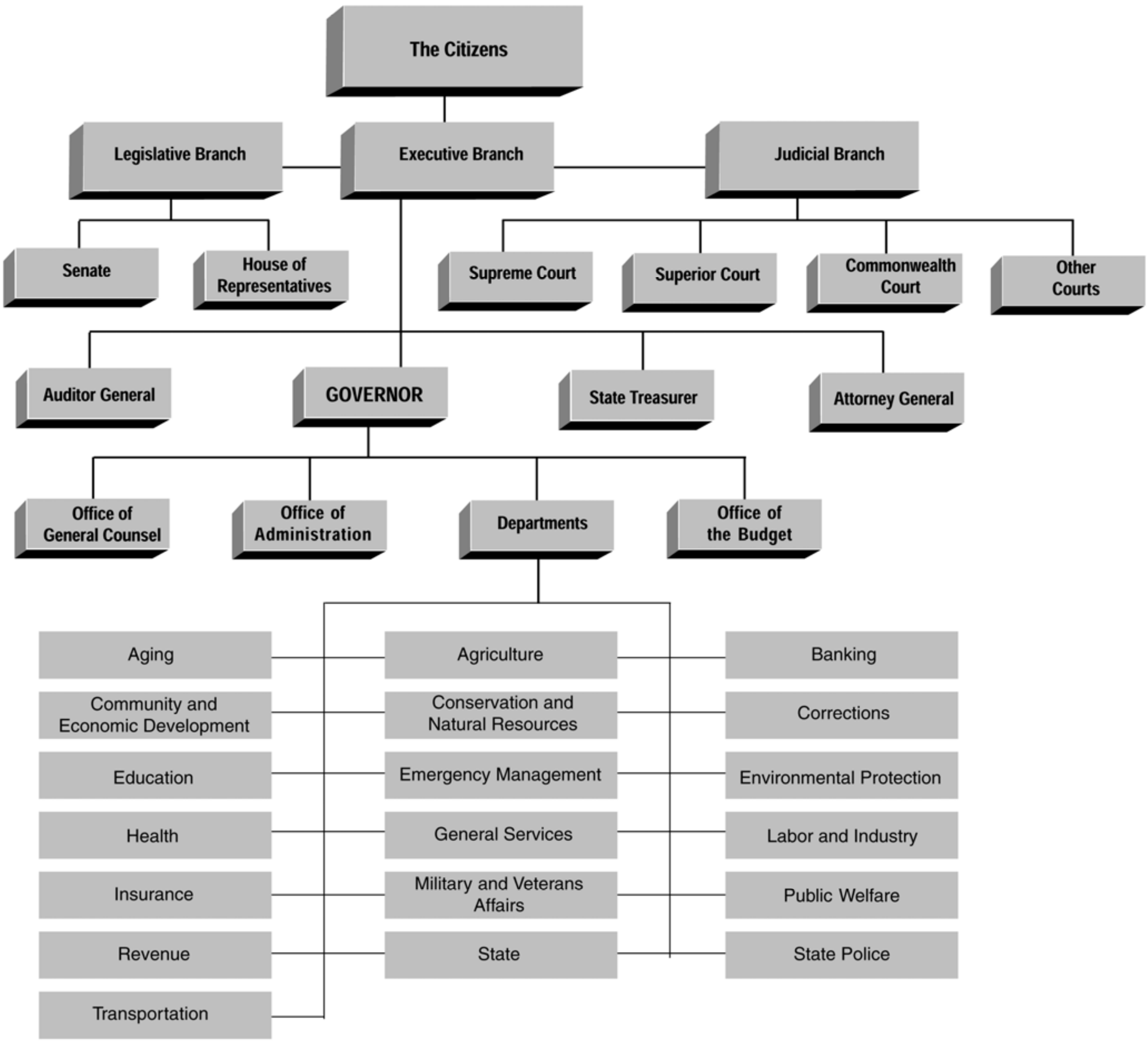
The Auditor General is charged with making audits of completed financial transactions. The Department of the Auditor General is under the Auditor General's direct jurisdiction.

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.

APPENDIX D

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SELECTED CONSTITUTIONAL PROVISIONS RELATING TO THE FINANCES OF THE COMMONWEALTH

Article VIII — TAXATION AND FINANCE

Commonwealth Indebtedness

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

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

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

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

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

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

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

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

Commonwealth Credit Not to be Pledged

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

Municipal Debt Not to be Assumed by Commonwealth

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

Audit

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

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

Gasoline Taxes and Motor License Fees Restricted

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

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

Governor's Budgets and Financial Plan

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

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

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

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

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

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

Appropriations

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

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

Surplus

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

Project "70"

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

Land and Water Conservation and Reclamation Fund

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

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APPENDIX F

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

December 23, 2010

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

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

This opinion is furnished to you in connection with the issuance and sale by the Commonwealth of Pennsylvania (the "Commonwealth") on the date hereof of $171,895,000 aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, Third Series A of 2010 (the "Third Series A Bonds"), of $466,605,000 aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, Third Series B of 2010 (the "Third Series B Bonds") and the $11,500,000 aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, Third Series C of 2010 (the "Third Series C Bonds" and together with the Third Series A Bonds and the Third Series B 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 January 15 and July 15 of each year commencing July 15, 2011, 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 December 9, 2010, and December 15, 2010 (collectively, the "Resolutions").

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

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

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

I am of the opinion that:

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

2. Pursuant to full and adequate legal power conferred upon them by the Constitution and the statutes referred to above, the Governor 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 $130,000,000.00 aggregate principal amount of the Bonds by levying unlimited ad valorem taxes upon all taxable property within the Commonwealth and excise taxes upon all taxable transactions within the Commonwealth, uniform on the same class of subjects, except gasoline and other motor fuel excise taxes, motor vehicle registration fees and license taxes, and operators' license fees and other excise taxes imposed on products used in motor transportation, and aviation fuel excise taxes, the proceeds of which are limited to certain special purposes by Section 11 of Article VIII of the Constitution.

6. The Commonwealth has the power to provide for the payment of the principal of and interest on $520,000,000.00 aggregate principal amount of the Bonds by levying unlimited ad valorem taxes upon all taxable property within the Commonwealth and excise taxes upon all taxable transactions within the Commonwealth, uniform on the same class of subjects, excluding aviation fuel excise taxes but including gasoline and other motor fuel excise taxes, and other excise taxes imposed on products used in motor transportation and by applying the motor vehicle registration fees, license taxes and operators' license fees to such payment.

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

Very truly yours,

Tom Corbett
Attorney General

APPENDIX G-1
Third Series A of 2010 (Tax-Exempt)
and
Third Series C of 2010 (Tax-Exempt)

December __, 2010

To: The Governor and the
State Treasurer, as the Issuing Officials of the
Commonwealth of Pennsylvania

Re: ***Commonwealth Of Pennsylvania General Obligation*** **Bonds** ***$171,895,000 Third Series A of 2010 and $11,500,000 Third Series C of 2010***

We have acted as Bond Counsel to the Commonwealth of Pennsylvania (the "Commonwealth") in connection with the issuance and sale by the Commonwealth of $171,895,000 aggregate principal amount of its General Obligation Bonds, Third Series A of 2010 and $11,500,000 aggregate principal amount of its General Obligation Bonds, Third Series C of 2010 (collectively the "Bonds"). The Bonds recite that they are authorized and issued pursuant to and in full compliance with the provisions, restrictions and limitations of the Constitution and laws of the Commonwealth, including Article VIII, Section 7 of the Constitution of the Commonwealth, the Capital Facilities Debt Enabling Act (Act No. 1999-1, approved February 9, 1999, as amended by: (a) Act No. 2002-130, approved October 28, 2002; (b) Act No. 2003-49, approved December 23, 2003; (c)Act No. 2004-67, approved July 4, 2004; (d) Act No. 2005-87, approved December 22, 2005; (e) Act No. 2008-48, approved July 4, 2008 and (f) Act No. 2010-48, approved July 7, 2010), the Capital Budget and Project Itemization Act of 2010-2011 (Act No. 2010-47, approved July 7, 2010), the Pennvest Acts (Water and Sewer Systems Assistance Act, Act No. 2008-64, approved July 9, 2008 and the Fiscal Code, as amended in Act No. 2009-50, approved October 9, 2009), the Pennworks Acts (Water and Wastewater Treatment Project Bond Act, Act No. 2004-10, approved February 12, 2004 and Act No. 2004-218, approved October 30, 2004), and certain other capital budget acts, debt authorizing acts and legislation as described in the Resolutions (as hereinafter defined). The Bonds are also authorized and issued pursuant to certain resolutions adopted by the Governor and the State Treasurer (collectively, the "Issuing Officials") on December __, 2010 and December ___, 2010, respectively (together, the "Resolutions").

The Resolutions provide that the Bonds are being issued for the purpose of providing funds, together with any other available funds, to pay for (a) grants for redevelopment assistance projects, (b) transportation assistance projects, (c) grants 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, (d) loans for the construction, expansion or improvement of water and wastewater infrastructure, including water supply and sewage treatment systems, and (e) costs incurred in connection with the issuance of the Bonds.

In our capacity as Bond Counsel to the Commonwealth, we have examined the proceedings relating to the authorization and issuance of the Bonds, including, among other things, (a) the Resolutions; (b) a certificate of Jack Wagner, the Auditor General as to tax revenues and outstanding debt; (c) an opinion of The Honorable Tom Corbett, Attorney General of the Commonwealth; (d) a specimen copy of the Bonds of each Series; (e) certificates of the Commonwealth as to certain material factual matters (including a certificate of the Commonwealth intended to satisfy certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and applicable Treasury Regulations); (f) a completed and executed Form 8038-G to be filed with the Internal Revenue Service; (g) the Certificate of __________, as purchaser of the Bonds (the "Purchaser"), dated the date hereof; (h) certificates of the Commonwealth and Wells Fargo Bank, N.A., as Loan and Transfer Agent, with respect to the execution and authentication of the Bonds and certain other matters; and (i) the other documents, certificates and opinions executed and delivered at the closing held this day.

The Commonwealth has covenanted to comply with the provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds, all as set forth in the proceedings and documents relating to the issuance of the Bonds.

In rendering the opinions set forth below, we have assumed the genuineness, authenticity, truthfulness and completeness of all documents, records, certificates and other instruments we have examined and the genuineness of all signatures thereon. As to questions of fact material to our opinion, we have relied upon the representations of the Commonwealth contained in the proceedings relating to the authorization and issuance of the Bonds and other certifications furnished to us without undertaking to verify the same by independent investigation. Except as set forth in paragraphs 7 and 8 below, our opinions are given only with respect to the laws of the Commonwealth as enacted and construed on the date hereof.

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

1. The Bonds are valid and binding direct obligations of the Commonwealth, enforceable in accordance with their terms, 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.

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, issued and sold pursuant to all necessary action of the Issuing Officials.

4. The Commonwealth has the power to provide for the payment of principal of and interest on the Bonds by levying unlimited ad valorem taxes upon all taxable property within the Commonwealth and excise taxes upon all taxable transactions within the Commonwealth, uniform on the same class of subjects, except gasoline and other motor fuel excise taxes, motor vehicle registration fees and license 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 Article VIII, Section 11 of the Constitution of the Commonwealth.

5. If sufficient funds are not appropriated for the timely payment of interest upon and installments of principal of the Bonds, the Constitution of the Commonwealth 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.

6. Under the laws of the Commonwealth, as currently enacted and construed, the Bonds are exempt from personal property taxes in the Commonwealth, and interest on the Bonds is exempt from the Commonwealth's personal income tax and corporate net income tax, but these exemptions shall not extend to gift, estate, succession or inheritance taxes or other taxes not levied directly on the Bonds or the interest thereon. However, under the Commonwealth's laws as presently enacted and construed, any profits, gains or income derived from the sale, exchange or other disposition of the Bonds will be subject to the Commonwealth's state and local taxes.

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

8. Interest on the Bonds is excluded from gross income for federal income tax purposes under existing law, as currently enacted and construed. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed upon

individuals and corporations. Interest on a Bond held by a corporation (other than an S Corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) does not constitute an item of tax preference under Section 57 of the Code and is not an adjustment in computing alternative minimum taxable income in the manner provided in Section 56 of the Code. Interest on a Bond held by a foreign corporation may be subject to the branch profits tax imposed by the Code.

Ownership of the Bonds may give rise to collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, S Corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. We express no opinion as to such collateral federal income tax consequences.

In providing this opinion, we advise you as follows:

(a) It may be determined in the future that interest on the Bonds, retroactive to the date of issuance thereof, will not be excluded from gross income of the owners of the Bonds for federal income tax purposes if certain requirements of the Code are not met subsequent to the issuance of the Bonds. The Commonwealth has covenanted to comply with these requirements. Our opinions expressed herein assume continued compliance with these covenants, and we have not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may affect the tax status of interest on the Bonds.

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

(c) The enforceability of the documents mentioned herein may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter enacted by any state or the federal government affecting the enforcement of creditors' rights generally, or the legal or equitable principles affecting creditors rights and "enforceable in accordance with its (their) terms" shall not mean that specific performance would necessarily be available as a remedy in every situation.

This opinion is rendered solely for the benefit of the addressees hereof in connection with the initial issuance of the Bonds. The addressees may not rely on this opinion letter for any other purpose and no other person may rely on this opinion letter for any purpose without the express written consent of the undersigned. This opinion letter is limited to the matters set forth herein. This opinion is subject to future changes in applicable law and we do not undertake any obligation to update any of the opinions expressed in this letter. No opinion may be inferred or implied beyond the matters expressly stated herein, and our opinions expressed herein must be read in conjunction with the assumptions, limitations, exceptions and qualifications set forth herein. The law covered by the opinions expressed herein is limited to the laws of the Commonwealth and the federal law of the United States of America. We express no opinion herein as to any matter not set forth in the numbered paragraphs herein, including, without limitation, any other federal and state tax consequences arising with respect to the Bonds or with respect to the accuracy or completeness of the Preliminary Official Statement, dated December ___, 2010 (the "Preliminary Official Statement), or the Official Statement, dated December 15, 2010 (the "Official Statement") prepared in respect of the offering of the Bonds, and make no representation that we have independently verified the contents thereof. We express no opinion with respect to whether the Commonwealth, in connection with the sale of the Bonds or the preparation of the Preliminary Official Statement or the Official Statement, has failed to make any untrue statement of a material fact necessary in order to make any statements made therein not misleading.

Very truly yours,

STRADLEY RONON STEVENS & YOUNG, LLP

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APPENDIX G-2
Third Series B of 2010
(Federally Taxable –
Build America Bonds
– Issuer Subsidy)

December __, 2010

To: The Governor and the
State Treasurer, as the Issuing Officials of the
Commonwealth of Pennsylvania

Re: Commonwealth Of Pennsylvania General Obligation Bonds $466,605,000 Third Series B of 2010

We have acted as Bond Counsel to the Commonwealth of Pennsylvania (the "Commonwealth") in connection with the issuance and sale by the Commonwealth of $466,605,000 aggregate principal amount of its General Obligation Bonds, Third Series B of 2010 (the "Bonds"). The Bonds recite that they are authorized and issued pursuant to and in full compliance with the provisions, restrictions and limitations of the Constitution and laws of the Commonwealth, including Article VIII, Section 7 of the Constitution of the Commonwealth, the Capital Facilities Debt Enabling Act (Act No. 1999-1, approved February 9, 1999, as amended by: (a) Act No. 2002-130, approved October 28, 2002; (b) Act No. 2003-49, approved December 23, 2003; (c) Act No. 2004-67, approved July 4, 2004; (d) Act No. 2005-87, approved December 22, 2005; (e) Act No. 2008-48, approved July 4, 2008; and (f) Act No. 2010-48, approved July 7, 2010), the Capital Budget and Project Itemization Act of 2010-2011 (Act No. 2010-47, approved July 7, 2010), the Growing Greener II Acts (Act No. 2005-1, approved April 13, 2005, and the Growing Greener Environmental Stewardship and Watershed Protection Enhancement Authorization Act (Act No. 2005-45, approved July 13, 2005)), the Pennvest Acts (Water and Sewer Systems Assistance Act, (Act No. 2008-64, approved July 9, 2008) and the Fiscal Code, as amended in Act No. 2009-50, approved October 9, 2009), the Pennworks Acts (Water and Wastewater Treatment Project Bond Act, (Act No. 2004-10, approved February 12, 2004 and Act No. 2004-218, approved October 30, 2004), and certain other capital budget acts, debt authorizing acts and legislation as described in the Resolutions (as hereinafter defined). The Bonds are also authorized and issued pursuant to certain resolutions adopted by the Governor and the State Treasurer (collectively, the "Issuing Officials") on December __, 2010 and December ___, 2010, respectively (together, the "Resolutions").

The Resolutions provide that the Bonds are being issued for the purpose of providing funds, together with any other available funds, to pay for (a) the construction and major rehabilitation of public buildings for the Commonwealth and its institutions, (b) various highway and bridge projects, (c) grants 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, (d) grants for the construction, expansion or improvement of water and wastewater infrastructure, including water supply and sewage treatment systems, (d) the maintenance and protect ion of the environment, open space and farmland preservation, watershed protection, abandoned mine reclamation, acid mine drainage remediation and other environmental initiatives, and (e) costs incurred in connection with the issuance of the Bonds.

In our capacity as Bond Counsel to the Commonwealth, we have examined the proceedings relating to the authorization and issuance of the Bonds, including, among other things, (a) the Resolutions; (b) a certificate of Jack Wagner, the Auditor General as to tax revenues and outstanding debt; (c) an opinion of The Honorable Tom Corbett, Attorney General of the Commonwealth; (d) a specimen copy of the Bonds; (e) certificates of the Commonwealth as to certain material factual matters (including a certificate of the Commonwealth intended to satisfy certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and applicable Treasury Regulations); (f) a completed and executed Form 8038-B to be filed with the Internal Revenue Service; (g) the Certificate of __________., as purchaser of the Bonds (the "Purchaser"), dated the date hereof; (h) certificates of the Commonwealth and Wells Fargo Bank, N.A., as Loan and Transfer Agent, with respect to the execution and authentication of the Bonds and certain other matters; and (i) the other documents, certificates and opinions executed and delivered at the closing held this day.

The Commonwealth has covenanted to comply with the provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds, all as set forth in the proceedings and documents relating to the issuance of the Bonds.

In rendering the opinions set forth below, we have assumed the genuineness, authenticity, truthfulness and completeness of all documents, records, certificates and other instruments we have examined and the genuineness of all signatures thereon. As to questions of fact material to our opinion, we have relied upon the representations of the Commonwealth contained in the proceedings relating to the authorization and issuance of the Bonds and other certifications furnished to us without undertaking to verify the same by independent investigation. Except as set forth in paragraphs 7 and 8 below, our opinions are given only with respect to the laws of the Commonwealth as enacted and construed on the date hereof.

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

1. The Bonds are valid and binding direct obligations of the Commonwealth, enforceable in accordance with their terms, 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.

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, issued and sold pursuant to all necessary action of the Issuing Officials.

4. The Commonwealth has the power to provide for the payment of principal of and interest on the Bonds by levying unlimited ad valorem taxes upon all taxable property within the Commonwealth and excise taxes upon all taxable transactions within the Commonwealth, uniform on the same class of subjects, except gasoline and other motor fuel excise taxes, motor vehicle registration fees and license 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 Article VIII, Section 11 of the Constitution of the Commonwealth.

5. If sufficient funds are not appropriated for the timely payment of interest upon and installments of principal of the Bonds, the Constitution of the Commonwealth 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.

6. Under the laws of the Commonwealth, as currently enacted and construed, the Bonds are exempt from personal property taxes in the Commonwealth, and interest on the Bonds is exempt from the Commonwealth's personal income tax and corporate net income tax, but these exemptions shall not extend to gift, estate, succession or inheritance taxes or other taxes not levied directly on the Bonds or the interest thereon. However, under the Commonwealth's laws as presently enacted and construed, any profits, gains or income derived from the sale, exchange or other disposition of the Bonds will be subject to the Commonwealth's state and local taxes.

7. Under current law, interest on the Bonds is included in gross income for Federal income tax purposes. We express no opinion regarding other Federal tax consequences of the ownership of or receipt or accrual of interest on the Bonds.

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

In providing this opinion, we advise you that the enforceability of the documents mentioned herein may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter enacted by any state or the federal government affecting the enforcement of creditors' rights generally, or the legal or equitable principles affecting creditors rights and "enforceable in accordance with its (their) terms" shall not mean that specific performance would necessarily be available as a remedy in every situation.

This opinion is rendered solely for the benefit of the addressees hereof in connection with the initial issuance of the Bonds. The addressees may not rely on this opinion letter for any other purpose and no other person may rely on this opinion letter for any purpose without the express written consent of the undersigned. This opinion letter is limited to the matters set forth herein. This opinion is subject to future changes in applicable law and we do not undertake any obligation to update any of the opinions expressed in this letter. No opinion may be inferred or implied beyond the matters expressly stated herein, and our opinions expressed herein must be read in conjunction with the assumptions, limitations, exceptions and qualifications set forth herein. The law covered by the opinions expressed herein is limited to the laws of the Commonwealth and the federal law of the United States of America. We express no opinion herein as to any matter not set forth in the numbered paragraphs herein, including, without limitation, any other federal and state tax consequences arising with respect to the Bonds or with respect to the accuracy or completeness of the Preliminary Official Statement, dated December ___, 2010 (the "Preliminary Official Statement), or the Official Statement, dated December __, 2010 (the "Official Statement") prepared in respect of the offering of the Bonds, and make no representation that we have independently verified the contents thereof. We express no opinion with respect to whether the Commonwealth, in connection with the sale of the Bonds or the preparation of the Preliminary Official Statement or the Official Statement, has failed to make any untrue statement of a material fact necessary in order to make any statements made therein not misleading.

Very truly yours,

STRADLEY RONON STEVENS & YOUNG, LLP

NOTICE OF SALE
$183,395,000*
Commonwealth of Pennsylvania
General Obligation Bonds
$171,895,000* Third Series A of 2010
(Tax –Exempt)
And
$11,500,000* Third Series C of 2010
(Tax –Exempt)

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

Wednesday, December 15, 2010 (the "Bid Date")

or such other subsequent date (the "Amended Bid Date") to be announced in an Amended Notice of Sale (as hereinafter defined) to be distributed not later than 4:00 P.M. on the last business day prior to the Bid Date, for the purchase of all, but not less than all, of the $171,895,000* aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, Third Series A of 2010 (Tax-Exempt) (the "Third Series A Bonds") and for the purchase of all, but not less than all, of the $11,500,000* aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, Third Series C of 2010 (Tax Exempt) (the "Third Series C Bonds" and collectively with the Third Series A Bonds, the "A & C Bonds").

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

Right to Amend

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

1. Change the date or time it will receive and open electronic bids to purchase the A & C Bonds;
2. increase or decrease the principal amount of the A & C Bonds;
3. adjust the respective par amounts of the A & C Bonds based on prevailing market conditions at the time of the sale of the A & C Bonds, including without limitation, the reallocation of serial maturities of the Third Series A Bonds and the Third Series B Bonds, which are being sold by the Commonwealth on Wednesday December 15, 2010 at 12:00 Noon Eastern Standard Time (See Appendix H2-Notice of Sale Third Series B Bonds) as between such series; and
4. determine the appropriate redemption provisions relative to the A & C Bonds based on prevailing market conditions at the time of the sale of the A & C Bonds.

Changes to the A & C 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 December 15, 2010) and the time by which bids to purchase the A & C 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 A & C 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 A & C Bonds will be dated the date of issuance and delivery, and will bear such rate or rates of interest, payable semiannually on July 15 and January 15 in each year commencing July 15, 2011, as shall be fixed by the purchaser in its proposal for the purchase of the A & C Bonds. The A & C Bonds shall mature serially on April 1 in the respective years and in the respective amounts as set forth below:

Third Series A Bonds*

Due July 15*	Principal Amount*	Due July 15*	Principal Amount*
2012	$21,030,000	2016	$25,685,000
2013	22,110,000	2017	27,005,000
2014	23,240,000	2018	28,390,000
2015	24,435,000		

Third Series C Bonds*

Due July 15*	Principal Amount*	Due July 15*	Principal Amount*
2012	$470,000	2022	$600,000
2013	480,000	2023	625,000
2014	490,000	2024	645,000
2015	500,000	2025	670,000
2016	510,000	2026	695,000
2017	520,000	2027	720,000
2018	535,000	2028	750,000
2019	550,000	2029	780,000
2020	565,000	2030	810,000
2021	585,000		

*Preliminary, subject to change.

Delivery of the A & C Bonds is proposed to occur on December 23, 2010, unless another date is set forth in any Amended Notice (the “Closing Date”).

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

The A & C Bonds maturing in the years 2012 to 2020, inclusive, are not subject to redemption prior to maturity. The A & C Bonds, or portions thereof in integral multiples of $5,000, maturing on and after July 15, 2021, are subject to redemption at the option of the Commonwealth prior to scheduled maturity on and after July 15, 2020, as a whole or in part (and if in part, within one or more maturities) at any time and from time to time, in any order of maturity determined by the Commonwealth and by lot within a maturity in such manner as the Commonwealth in its discretion may determine, on at least 30 days, (but not more than 60 days') notice, at a redemption price equal to par (100% of stated principal amount) plus accrued interest to the date fixed for redemption.

Extraordinary Redemption-Third Series C Bonds

The Third Series C Bonds are subject to extraordinary redemption at the direction of the Commonwealth, at the respective redemption prices hereinafter specified, (a) in part, in an aggregate principal amount not in excess of $3,450,000.00, on March 1, 2012, and (b) in whole or in part, on March 1, 2014, but in any such case only if and to the extent the Commonwealth determines that such redemption is required under Section 149(f) of the Internal Revenue Code of 1986, as amended (the "Code"), in order to maintain the status of the Third Series C Bonds as obligations the interest on which is excludable from the gross income of the owners thereof for federal income tax purposes. Any such redemption in part shall be in integral multiples of $5,000 and the Third Series C Bonds or portions thereof to be redeemed shall be selected on a pro rata basis from among each maturity of the Third Series C Bonds and from within a maturity as selected by lot, unless the Commonwealth determines that another method of selection of Third Series C Bonds for redemption is required in order to achieve compliance with such section of the Code, in which event the Commonwealth reserves the right to select Third Series C Bonds for redemption from among such maturities and in such principal amounts per maturity as it may determine in its discretion, and from within a maturity as selected by lot. Any such extraordinary redemption shall be upon at least 30 days, and not more than 60 days, prior written notice. The redemption price for Third Series C Bonds to be redeemed under this provision on March 1, 2012 shall be 106% of the principal amount of the Third Series C Bonds to be redeemed, plus accrued interest to the redemption date. The redemption price for Third Series C Bonds to be redeemed under this provision on March 1, 2014 shall be 104% of the principal amount of the Third Series C Bonds to be redeemed, plus accrued interest to the redemption date.

Adjustment of Principal Amounts

The principal amount of each serial maturity of the A & C Bonds, and consequently each corresponding serial maturity of the A & C Bonds, are subject to adjustment by the Commonwealth of Pennsylvania after the receipt of bids for their purchase. Changes to be made will be communicated to the successful bidder not later than six (6) hours after the bids have been received and opened and will be made only as necessary to comply with the requirement of federal tax law applicable to refunding obligations in order to maintain exemption from federal income tax for interest payable thereon and in no case will reduce or increase the principal amount of each serial maturity of the A & C 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 A & C 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.

Thirds Series A Bonds Interest Rate and Bidding Details

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

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

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

Thirds Series C Bonds Interest Rate and Bidding Details

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

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

No bid for the Third Series C 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 A & C 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 A & C Bonds, any purchase of such credit enhancement shall be at the sole option and expense of the successful bidder. If the A & C 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 A & C 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 A & C Bonds as affected, if at all, by such credit enhancement.

Failure of the A & C 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 A & C 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 A & C 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 A & C 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 A & C Bonds (the “Initial Issuing Prices”) and certain other information to enable the Commonwealth to compute the yield on the A & C Bonds for federal income tax law purposes. The Purchaser will be required to provide a certificate regarding the issue price of the A & C Bonds prior to settlement for the A & C 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 A & C Bonds at the Initial Issuing Prices and that, as of the date of the award of the A & C Bonds, the Purchaser sold a substantial amount (at least 10 percent) of each maturity of the A & C Bonds 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 A & C Bonds at prices not greater than the Initial Issuing Prices, offer the A & C 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 A & C 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 A & C Bonds, including the delivery to the MSRB of the Official Statement and any advance refunding documents.

Basis of Awards

Award of the A & C Bonds will be made on or before 4:00 P.M. Eastern Standard Time, on December 15, 2010 or, in the event of the announcement of an Amended Bid Date, the date specified in the Amended Notice. The A & C 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 A & C 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 A & C 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 A & C Bonds, December 23, 2010, unless otherwise announced in an amended notice, to the price bid, including interest accrued to the date of delivery, if any. In the event of more than one bid specifying such lowest rate, the A & C Bonds will be awarded to the bidder whose bid is selected by lot from among all such lowest bids.

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

Good Faith Deposit

The successful bidder (the "Purchaser") is required to submit a good faith deposit in an amount equal to $1,000,000 (the “Good Faith Deposit”) to the Commonwealth in the form of a wire transfer, which must be received no later than 11:00 A.M. Eastern Standard Time on the next business day following the verbal award of the A & C 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 A & C 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 December 9, 2010, issued with respect to the A & C 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 A & C 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 A & C 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 A & C Bonds, provided, however, that incorrect numbers shall not constitute grounds for a Purchaser of the A & C 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 A & C Bonds must be made by wire in immediately available funds for credit at Wells Fargo Bank, National Association, Loan and Transfer Agent, in Pittsburgh, Pennsylvania, at 10:00 A.M., Eastern Standard Time, on the Closing Date, or at such other place and time as may be agreed upon with the successful bidder.

The Purchaser shall have the right, at its option, to cancel its obligation to purchase the A & C Bonds if the Commonwealth shall fail to tender the A & C 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 Stradley Ronon Stevens & Young, 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 A & C 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 A & C 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 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 A & C Bonds.

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

Copies of Documents

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

EDWARD G. RENDELL
Governor

ROBERT M. McCORD
State Treasurer

Dated: December 9, 2010

COMMONWEALTH OF PENNSYLVANIA
GENERAL OBLIGATION BONDS
$171,895,000 THIRD SERIES A OF 2010
AND
$11,500,000 THIRD SERIES C OF 2010 (TAX EXEMPT)

CERTIFICATE OF THE UNDERWRITERS

THIS CERTIFICATION is made in connection with the issuance this day by the Commonwealth of Pennsylvania (the "Issuer"), of its General Obligation Bonds, Third Series A of 2010 in the aggregate principal amount of $171,895,000 and Third Series C of 2010 in the aggregate principal amount of $11,500,000 (collectively the "2010 A&C 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 20l0 A&C Bonds.

1. **Issue Price.**

(a) The aggregate Initial Public Offering Price of all of the 2010 A&C Bonds is $_______________ (which represents the aggregate principal amount of the 2010 A&C Bonds of $183,395,000 plus original issue premium of $___________ plus preissuance accrued interest of $______).

(b) As of December____, 2010, which is the date on which we agreed to purchase the 2010 A&C Bonds (the "Sale Date"), the Underwriters reasonably expected to offer all of the 2010 A&C 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 2010 A&C 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) At least ten percent (10%) of each maturity of the 2010 A&C Bonds has been sold to the Public at prices not higher than, or, in the case of obligations sold on a yield basis, at yields not lower than, the Initial Public Offering Prices [except for the 2010 A&C Bonds with the following maturities:].

(e) The Underwriters have no reason to believe that any of the Initial Public Offering Prices of the 2010 A&C Bonds did not represent an expected fair market value of the 2010 A&C Bonds as of the Sale Date.

(f) The Initial Public Offering Price for the 2010 A&C Bonds is not more than a fair market value of the 2010 A&C 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 2010 A&C 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 2010 A&C Bonds or the investment of the proceeds thereof which it has not disclosed to the Issuer and Stradley Ronon Stevens & Young, 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 then issuance of the 2010 A&C Bonds.

Dated: December ___, 2010

___________________________ as Representative

By:____
Authorized Officer

•

December ___, 2010

Commonwealth of Pennsylvania

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

Re: Commonwealth of Pennsylvania
General Obligation Bond
Third Series A of 2010 and Third Series C of 2010

Ladies and Gentlemen:

We hereby acknowledge receipt of $171,895,000 aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds Third Series A of 2010 and $11,500,000 aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds Third Series C of 2010 (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 December ___, 2010. with respect to the Bonds, together with one manually signed copy of the respective opinions of the Honorable Tom Corbett, Attorney General, and of Stradley Ronon Stevens & Young, 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
$171,895,000 THIRD SERIES A OF 2010
AND
$11,500,000 THIRD SERIES C OF 2010 (TAX EXEMPT)

Numbers	Maturity	Principal Amount	Rate	CUSIP

APPENDIX H-2
Third Series B of 2010
(Federally Taxable –
Build America Bonds
– Issuer Subsidy)

NOTICE OF SALE
$466,605,000*
Commonwealth of Pennsylvania
General Obligation Bonds
Third Series B of 2010
(Federally Taxable – Build America Bonds – Issuer Subsidy)

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

Wednesday, December 15, 2010 (the “Bid Date”)

or such other subsequent date (the “Amended Bid Date”) to be announced in an Amended Notice of Sale (as hereinafter defined) to be distributed not later than 4:00 P.M. on the last business day prior to the Bid Date, for the purchase of all, but not less than all, of the $466,605,000* aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, Third Series B of 2010 (Federally Taxable – Build America Bonds – Issuer Subsidy), (the “Third Series B Bonds”).

Bids must be submitted in accordance with this Notice of Sale prior to 12:00 Noon, Eastern Standard Time on the Bid Date. No bid will be accepted after the bid deadline.

Right to Amend

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

1. Change the date or time it will receive and open electronic bids to purchase the Third Series B Bonds;
2. increase or decrease the principal amount of the Third Series B Bonds;
3. adjust the respective par amounts of the Third Series B Bonds based on prevailing market conditions at the time of the sale of the Third Series B Bonds, including without limitation, the reallocation of serial maturities of the Third Series B Bonds and the Third Series A, which are being sold by the Commonwealth on Wednesday December 15, 2010 at 11:00 A.M., Eastern Standard Time (See Appendix H1-Notice of Sale Third Series A Bonds) as between such two series;
4. determine whether the Third Series B Bonds will be issued as federally taxable Build America Bonds or as tax exempt Bonds based on prevailing market conditions at the time of sale of the Third Series B Bonds; and,
5. determine the appropriate redemption provisions relative to the Third Series B Bonds based on prevailing market conditions at the time of the sale of the Third Series B Bonds.

Changes to the Third Series B Bonds being offered, if made, will be contained in an Amended Notice of Sale (the “Amended Notice”) to be transmitted via the Bond Buyer Wire not later than 4:00 P.M. on the last business day prior to the Bid Date. The Amended Notice shall (i) state the Amended Bid Date (a date not before December 15, 2010) and the time by which bids to purchase the Third Series B Bonds must be received by the Commonwealth; (ii) state the revised principal amounts; (iii) state the proposed closing date; and (iv) supplement and update the information contained herein to the extent deemed necessary by the Commonwealth.

* Preliminary, subject to change

Security

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

Bond Details

The Third Series B Bonds will be dated the date of issuance and delivery, and will bear such rate or rates of interest, payable semiannually on January 15 and July 15 in each year commencing July 15, 2011, as shall be fixed by the purchaser in its proposal for the purchase of the Third Series B Bonds. The Third Series B Bonds shall mature serially on July 15 in the respective years and in the respective amounts as set forth below:

Third Series B Bonds*

Due July 15*	Principal Amount*	Due July 15*	Principal Amount*
2019	$29,685,000	2025	$38,860,000
2020	30,920,000	2026	40,930,000
2021	32,240,000	2027	43,170,000
2022	33,665,000	2028	45,600,000
2023	35,225,000	2029	48,240,000
2024	36,955,000	2030	51,115,000

*Preliminary, subject to change.

Delivery of the Third Series B Bonds is proposed to occur on December 23, 2010, unless another date is set forth in any Amended Notice (the “Closing Date”).

The Third Series B Bonds will be issued and sold by means of a book-entry only system with no distribution of Bond certificates made to the public. Bond certificates representing the aggregate principal amount of the Third Series B Bonds maturing in each year will be issued and fully registered as to principal and interest in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), a depository registered with the Securities and Exchange Commission. Individual beneficial ownership of the Third Series B Bonds will be in principal amounts of $5,000 or integral multiples thereof within a maturity pursuant to the rules and procedures established between DTC and its participants. Transfers of beneficial ownership will be affected through records maintained by DTC and its participants pursuant to rules and procedures established by DTC. The responsibility for maintaining, reviewing and supervising such records rests collectively with DTC and its participants. The winning bidder, as a condition to the delivery of the Third Series B Bonds, shall be required to deposit the Bond certificates in its account at DTC, registered in the name of Cede & Co. Interest on the Third Series B Bonds will be payable on each semi-annual interest payment date and principal of the Third Series B Bonds will be paid annually as set forth in the foregoing maturity schedule, in same-day funds to DTC or its nominee as registered owner of the Third Series B Bonds. Transfer of principal and interest payments to the beneficial owners by participants of DTC will be the responsibility of such DTC participants and other nominees of beneficial owners.

The Commonwealth will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

Serial Bonds and/or Term Bonds

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

Build America Bonds

The Commonwealth has elected to designate the Third Series B Bonds as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 ("ARRA") and to receive payments ("Subsidy Payments") from the United States Treasury in connection therewith. Pursuant to ARRA, the Commonwealth is to receive a Subsidy Payment from the United States Treasury, contemporaneously with each Interest Payment Date for the Third Series B Bonds, equal to 35% of the interest payable on the Third Series B Bonds on such date. The Subsidy Payments do not constitute a full faith and credit guarantee of the United States of America, but are required to be paid by the United States Treasury under ARRA. If the Subsidy Payments from the United States Treasury are reduced or eliminated, the Third Series B Bonds are subject to extraordinary optional redemption. **As a result of the Commonwealth's election to receive the Subsidy Payments, no federal income tax credits will be available to holders of the Third Series B Bonds.**

Optional Redemption

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

Extraordinary Optional Redemption – Third Series B Bonds

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

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

(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Third Series B Bonds to be redeemed, not including any portion

of those payments of interest accrued and unpaid as of the date on which such Third Series B Bonds are to be redeemed, discounted to the date on which such Third Series B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below) plus 100 basis points;

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

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

"Treasury Rate" means, with respect to any redemption date for any particular Third Series B Bond, the greater of:

(i) the yield to maturity as of such redemption date of the United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to maturity; provided, however, that if the period from the redemption date to maturity is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used; all as will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the Commonwealth at the Commonwealth's expense and such determination shall be conclusive and binding on the owners of the Third Series B Bonds, or

(ii) the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue (defined below), assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price (defined below), as calculated by the Designated Investment Banker (defined below).

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

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

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

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

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

DTC Procedures

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

Adjustment of Principal Amounts

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

Interest Rate and Bidding Details

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

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

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

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

Maturity Date (July 15)	Maximum Issue Price	Maturity Date (July 15)	Maximum Issue Price
2012	100.25%	2017	101.50%
2013	100.50%	2018	101.75%
2014	100.75%	2019	102.00%
2015	101.00%	2020	102.25%
2016	101.25%	2021 through 2030 (inclusive)	102.50%

No bid for the Third Series B Bonds at a price less than 98½% of their par value, exclusive of accrued interest, will be considered. Bids may specify any number of interest rates subject to (i) through (iii) above. No bid will be considered which does not offer to purchase all of the Third Series B 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 Third Series B Bonds, any purchase of such credit enhancement shall be at the sole option and expense of the successful bidder. If the Third Series B Bonds are to be subject to credit enhancement, the successful bidder shall pay the premium and other costs therefore prior to the delivery of the Third Series B Bonds.

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

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

Electronic Bidding Procedure

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

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

All electronic bids must be delivered via Parity. If any provision of this Notice of Sale conflicts with information provided by Parity, this Notice of Sale shall control. Each bidder submitting an electronic bid agrees by doing so that it is solely responsible for all arrangements with (including any charges by) Parity, that the Commonwealth does not endorse or encourage the use of Parity, and that Parity is not acting as an agent of the

Commonwealth. Instructions for submitting electronic bids must be obtained from Parity, and the Commonwealth does not assume any responsibility for ensuring or verifying bidder compliance with the procedures of Parity. The Commonwealth shall be entitled to assume that any bid received via Parity has been made by a duly authorized agent of the bidder. Acceptance of electronic bids shall be subject to the limitations set forth in **"Warnings Regarding Electronic Bids"** below.

Warnings Regarding Electronic Bids

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

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

Reoffering and Sale of Bonds to Public

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

Basis of Awards

Award of the Third Series B Bonds will be made on or before 4:00 P.M. Eastern Standard Time, on December 15, 2010 or, in the event of the announcement of an Amended Bid Date, the date specified in the Amended Notice. The Third Series B Bonds will be sold to the bidder making a bid conforming to the terms of the offering which, on the basis of the lowest net effective interest rate for the Third Series B Bonds, determined in the manner hereinafter stated, is the best bid, subject to the right of the undersigned in their sole discretion to reject any and all bids. The net effective interest rate for the Third Series B Bonds shall be the interest rate determined on a true interest cost ("TIC") basis by doubling the semi-annual interest rate, compounded semi-annually, necessary to discount the debt service payments to the date of delivery of the Third Series B Bonds, December 23, 2010, unless otherwise announced in an amended notice, to the price bid, including interest accrued to the date of delivery, if any. In the event of more than one bid specifying such lowest rate, the Third Series B Bonds will be awarded to the bidder whose bid is selected by lot from among all such lowest bids.

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

Good Faith Deposit

The successful bidder (the "Purchaser") is required to submit a good faith deposit in an amount equal to $1,000,000 (the "Good Faith Deposit") to the Commonwealth in the form of a wire transfer, which must be received no later than 12:00 Noon, Eastern Standard Time on the next business day following the verbal award of the Third Series B Bonds. If the Good Faith Deposit is not received by such time, the Commonwealth, at its sole discretion, may revoke its acceptance of the Purchaser's proposal. No interest on the Good Faith Deposit will accrue to the Purchaser. The Good Faith Deposit will be applied to the purchase price of the Third Series B Bonds. In the event the Purchaser fails to honor the accepted proposal, the Good Faith Deposit will be retained by the Commonwealth.

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

The Preliminary Official Statement dated December 9, 2010, issued with respect to the Third Series B Bonds (the "Preliminary Official Statement"), has been deemed final by the Commonwealth as of its date for purposes of the Rule, except for the omission of information as permitted by the Rule, but is subject to revision, amendment, and completion in the final Official Statement (hereinafter the "Official Statement") to be prepared with respect to the Third Series B Bonds. A reasonable number of copies (not to exceed 1,000) of the Official Statement, to be dated as of a date prior to settlement, will be furnished to the Purchaser within seven business days after the sale date. Copies of the Official Statement in excess of 1,000 will be furnished at the request of the Purchaser at its own expense. The Purchaser will be required to provide pricing information necessary for the Commonwealth to complete the Official Statement.

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

CUSIP Numbers

CUSIP numbers will be assigned at the Purchaser's expense. The CUSIP numbers will be printed on the Third Series B Bonds, provided, however, that incorrect numbers shall not constitute grounds for a Purchaser of the Third Series B 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 Third Series B Bonds must be made by wire in immediately available funds for credit at Wells Fargo Bank, National Association, Loan and

Transfer Agent, in Pittsburgh, Pennsylvania, at 10:00 A.M., Eastern Standard Time, on the Closing Date, or at such other place and time as may be agreed upon with the successful bidder.

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

Legal Opinions

The Commonwealth will deliver to the Purchaser without charge: (i) the opinion of the Attorney General of the Commonwealth and (ii) the opinion of Stradley Ronon Stevens & Young, 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 Third Series B Bonds are offered subject to the delivery at settlement by the Commonwealth of (i) a certificate stating that there is no litigation pending affecting the validity of the Third Series B Bonds or their issuance and sale to the Purchaser; (ii) a certification by the Secretary of the Budget that the financial statements contained in the Official Statement accurately reflect the conditions and facts they purport to reflect, that the estimates contained therein, in light of the information available, are believed to be reliable and that there have been no material adverse changes in the financial position of the Commonwealth since the dates of such financial statements that has not been disclosed in the Official Statement; (iii) a certification by the Governor 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 Third Series B Bonds.

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

Copies of Documents

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

EDWARD G. RENDELL
Governor

ROBERT M. McCORD
State Treasurer

Dated: December 9, 2010

APPENDIX H-2
Third Series B of 2010
(Federally Taxable –
Build America Bonds
– Issuer Subsidy)

$466,605,000
COMMONWEALTH OF PENNSYLVANIA
GENERAL OBLIGATION BONDS
THIRD SERIES B OF 2010 (FEDERALLY TAXABLE - BUILD AMERICA BONDS - ISSUER SUBSIDY)

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, Third Series B of 2010 (Federally Taxable - Build America Bonds - Issuer Subsidy) (the "2010B Bonds") in the aggregate principal amount of $466,605,000. The undersigned officer of _____________, as representative of itself and the selling group (collectively, the "Underwriters") hereby certifies, to the best of its knowledge, information, and belief, based upon its records, as follows:

Issue Price

The aggregate Initial Public Offering Price of all of the 2010 B Bonds is $_______________ (which represents the aggregate principal amount of the 2010 B Bonds of $466,605,000 plus original issue premium of $___________ plus preissuance accrued interest of $______).

As of December____, 2010, which is the date on which we agreed to purchase the 2010 B Bonds (the "Sale Date"), the Underwriters reasonably expected to offer all of the 2010 B 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.

All of the 2010 B 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.

At least ten percent (10%) of each maturity of the 2010 B Bonds has been sold to the Public at prices not higher than, or, in the case of obligations sold on a yield basis, at yields not lower than, the Initial Public Offering Prices [except for the 2010 B Bonds with the following maturities:].

The Underwriters have no reason to believe that any of the Initial Public Offering Prices of the 2010 B Bonds did not represent an expected fair market value of the 2010 B Bonds as of the Sale Date.

The Initial Public Offering Price for the 2010 B Bonds is not more than a fair market value of the 2010 B Bonds as of the Sale Date.

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 2010 B Bonds.

<u>Miscellaneous</u>.

The Underwriters have not made or received and will not make or receive any payment with respect to its acquisition of the 2010 B Bonds or the investment of the proceeds thereof which it has not disclosed to the Issuer and Stradley Ronon Stevens & Young, 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 then issuance of the 2010 B Bonds.

Dated: December ___, 2010

________________________, as Representative

By:____
Authorized Officer

APPENDIX H-2
Third Series B of 2010
(Federally Taxable –
Build America Bonds
– Issuer Subsidy)

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December ___, 2010

Commonwealth of Pennsylvania

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

Re: Commonwealth of Pennsylvania
General Obligation Bond
Third Series B of 2010

Ladies and Gentlemen:

We hereby acknowledge receipt of $466,605,000 aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, Third Series B of 2010 dated December ___, 2010 (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 December ___, 2010. with respect to the Bonds, together with one manually signed copy of the respective opinions of the Honorable Tom Corbett, Attorney General, and of Stradley Ronon Stevens & Young, 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
$466,605,000
General Obligation Bonds
Third Series B of 2010

Numbers	Maturity	Principal Amount	Rate	CUSIP