

*In the opinion of Co-Bond Counsel, assuming continuing compliance by the Commonwealth with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and all regulations applicable thereunder, and subject to the conditions described in "TAX MATTERS" herein, interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. However, interest on the Bonds is taken into account in determining annual adjusted financial statement income of applicable corporations (as defined in Section 59(k) of the Code) for the purpose of computing the federal alternative minimum tax imposed on such corporations for tax years beginning after December 31, 2022.*

*Co-Bond Counsel are also of the opinion that under the laws of the Commonwealth of Pennsylvania as presently enacted and construed, the interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax.*

*Other provisions of the Code may affect the purchasers of the Bonds. See "TAX MATTERS" herein.*



# **\$1,000,000,000**

## **Commonwealth of Pennsylvania**

### **General Obligation Bonds,**

#### **First Series of 2022**

**Dated: Date of Issuance and Delivery**

**Due: As shown on inside front cover**

The Commonwealth of Pennsylvania's General Obligation Bonds will be issued only in book-entry only form and 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 April 1 and October 1, commencing April 1, 2023 for the First Series of 2022 Bonds (the "Bonds"). Manufacturers and Traders Trust Company, a New York banking corporation, Harrisburg, Pennsylvania, is the Loan and Transfer Agent for the Bonds. Principal of and interest and redemption premium, if any, on the Bonds are payable to Cede & Co. See "THE BONDS – Book-Entry Only System." and Appendix D "INFORMATION REGARDING THE DEPOSITORY TRUST COMPANY AND ITS BOOK-ENTRY SYSTEM."

The Bonds are subject to redemption as set forth herein. See "THE BONDS – Redemption."

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. See "SECURITY AND SOURCE OF PAYMENT FOR BONDS."

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

The Bonds are offered when, as and if issued by the Commonwealth and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice, and are subject to the receipt of the legal opinions of the Office of Attorney General of the Commonwealth and, McNees Wallace & Nurick LLC of Harrisburg, Pennsylvania, Law Office of Nathaniel M. Holmes, LLC of Harrisburg, Pennsylvania, and Gosfield Law LLC of Gladwyne, Pennsylvania. Certain legal matters will be passed upon for the Commonwealth by Greenberg Traurig, LLP and Andre C. Dasent, P.C., both of Philadelphia, Pennsylvania, serving as Co-Disclosure Counsel to the Commonwealth. The Commonwealth expects that the Bonds will be available in definitive form for delivery through the facilities of DTC on or about September 22, 2022.

**\$1,000,000,000**  
**Commonwealth of Pennsylvania**  
**General Obligation Bonds,**  
**First Series of 2022**

MATURITY SCHEDULE  
(Base CUSIP Number†: 70914P)

| <u>Due</u><br><u>October 1</u> | <u>Principal</u><br><u>Amount</u> | <u>Interest</u><br><u>Rate</u> | <u>Yield</u> | <u>CUSIP</u><br><u>Number†</u> | <u>Due</u><br><u>October 1</u> | <u>Principal</u><br><u>Amount</u> | <u>Interest</u><br><u>Rate</u> | <u>Yield</u> |   | <u>CUSIP</u><br><u>Number†</u> |
|--------------------------------|-----------------------------------|--------------------------------|--------------|--------------------------------|--------------------------------|-----------------------------------|--------------------------------|--------------|---|--------------------------------|
| 2023                           | \$50,000,000                      | 5.000%                         | 2.370%       | X31                            | 2033                           | \$50,000,000                      | 5.000%                         | 3.160%       | * | Y55                            |
| 2024                           | \$50,000,000                      | 5.000%                         | 2.460%       | X49                            | 2034                           | \$50,000,000                      | 5.000%                         | 3.350%       | * | Y63                            |
| 2025                           | \$50,000,000                      | 5.000%                         | 2.480%       | X56                            | 2035                           | \$50,000,000                      | 5.000%                         | 3.430%       | * | Y71                            |
| 2026                           | \$50,000,000                      | 5.000%                         | 2.550%       | X64                            | 2036                           | \$50,000,000                      | 5.000%                         | 3.470%       | * | Y89                            |
| 2027                           | \$50,000,000                      | 5.000%                         | 2.600%       | X72                            | 2037                           | \$50,000,000                      | 4.000%                         | 4.000%       |   | Y97                            |
| 2028                           | \$50,000,000                      | 5.000%                         | 2.670%       | X80                            | 2038                           | \$50,000,000                      | 5.000%                         | 3.640%       | * | Z21                            |
| 2029                           | \$50,000,000                      | 5.000%                         | 2.730%       | X98                            | 2039                           | \$50,000,000                      | 4.000%                         | 4.082%       |   | Z39                            |
| 2030                           | \$50,000,000                      | 5.000%                         | 2.810%       | Y22                            | 2040                           | \$50,000,000                      | 5.000%                         | 3.720%       | * | Z47                            |
| 2031                           | \$50,000,000                      | 5.000%                         | 2.950%       | Y30                            | 2041                           | \$50,000,000                      | 4.125%                         | 4.241%       |   | Z54                            |
| 2032                           | \$50,000,000                      | 5.000%                         | 3.000%       | Y48                            | 2042                           | \$50,000,000                      | 5.000%                         | 3.810%       | * | Z62                            |

†The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the Commonwealth and the Commonwealth is not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. The Commonwealth has not agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

\*Yield to first optional redemption date of October 1, 2032.



**THE ISSUING OFFICIALS**

*Governor ..... TOM WOLF*  
*State Treasurer.....STACY GARRITY*  
*Auditor General.....TIMOTHY DeFOOR*

**OFFICE OF THE BUDGET**

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Philadelphia, Pennsylvania

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

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

The order and placement of the information in 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 (the “Commonwealth”)  
**Offering** ..... \$1,000,000,000 Commonwealth of Pennsylvania, General Obligation Bonds, First Series of 2022 (the “Bonds”).  
**Dated Date**..... Date of issuance and delivery  
**Security**..... General obligation of the Commonwealth; full faith and credit pledged (See “SECURITY AND SOURCE OF PAYMENT FOR BONDS” herein)  
**Estimated Use of Proceeds** .... The Commonwealth is issuing the Bonds for the following purposes:

| <u>Purpose</u>                                    | <u>Amount</u>   |
|---------------------------------------------------|-----------------|
| <b>First Series Bonds</b>                         |                 |
| Capital Facilities Projects .....                 | \$1,000,000,000 |
| Paying all or a portion of the costs of issuance. |                 |

**Redemption** ..... The Bonds maturing on and after October 1, 2033 are subject to optional redemption in whole or in part (and if in part, in part within one or more maturities) at any time on and after October 1, 2032 at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption.  
**Authorized Denominations** ... \$5,000 or integral multiples thereof.  
**Form of Bonds**..... The Bonds are issued in fully registered form through a book-entry only system.  
**Loan & Transfer Agent**..... Manufacturers and Traders Trust Company, Harrisburg, Pennsylvania.  
**Legal Opinions** ..... McNees Wallace & Nurick LLC, Law Office of Nathaniel M. Holmes, LLC and Gosfield Law LLC, Co-Bond Counsel.  
Greenberg Traurig, LLP and Andre C. Dasent, P.C., Co-Disclosure Counsel.  
Josh Shapiro, Attorney General of the Office of Attorney General of the Commonwealth.  
**Bond Ratings** ..... Fitch Ratings, Inc. .... AA- (outlook “Positive”)  
Moody’s Investors Service, Inc. .... Aa3 (outlook “Stable”)  
S&P Global Ratings ..... A+ (outlook “Stable”)  
See “RATINGS” herein.

**Official Statement**  
**\$1,000,000,000**  
**Commonwealth of Pennsylvania**  
**General Obligation Bonds,**  
**First Series of 2022**

**INTRODUCTION**

This Official Statement of the Commonwealth of Pennsylvania (the “Commonwealth”), including the cover page, inside front cover page and appendices hereof, presents certain information in connection with the issuance of \$1,000,000,000 Commonwealth of Pennsylvania, General Obligation Bonds, First Series of 2022 (the “Bonds”). The Bonds are being issued to provide funds for and toward the costs of various capital projects. See “ESTIMATED USE OF PROCEEDS.”

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

The Bonds will be initially 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. Financial information and other data provided herein are derived from the best information available as of the date of this Official Statement. Because agencies of the Commonwealth have different reporting periods, “as of” dates of certain financial and other information presented herein may vary. 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.

If and when included in this Official Statement, the words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” “assumes,” and analogous expressions are intended to identify forward-looking statements. Any such statements inherently are subject to a variety of risks and uncertainties, certain of which are beyond the control of the Commonwealth.

**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 inside cover page hereof. Such interest will be payable semi-annually on each April 1 and October 1, commencing April 1, 2023, calculated on the basis of a 360-day year of twelve 30-day months, and will mature in the amounts and on the dates as set forth on the inside cover page hereof.

The resolutions adopted by the Governor, State Treasurer and Auditor General dated August 31, 2022 and September 7, 2022 (collectively, the “Resolutions”) 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 Bonds.

Copies of the Resolutions, including the full text of the forms of the Bonds, are on file at the designated office in Harrisburg, Pennsylvania of Manufacturers and Traders Trust Company (“Loan and Transfer Agent”).

Interest on the Bonds will be payable by check or draft mailed or other transfer made to the persons in whose names the Bonds shall be registered at the close of business on the fifteenth day (whether or not a business day) of the calendar month next proceeding 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 on a Saturday, a Sunday, a legal holiday or a day on which banks in the Commonwealth are required or authorized by law (including by executive order) to close, then payment of such interest, principal or redemption price need not be made on such date, but may be made on the next succeeding day which is not a Saturday, a Sunday, a legal holiday, or a day upon which banks in the Commonwealth are required or authorized by law (including by executive order) to close, with the same force and effect as if made on the due date for such payment of principal, interest or redemption price, and no interest shall accrue thereon for any period after such due date.

### **Book-Entry Only System**

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

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

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

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

### **Optional Redemption**

The Bonds, or portions thereof in integral multiples of \$5,000, maturing on and after October 1, 2033 are subject to redemption at the option of the Commonwealth prior to scheduled maturity on and after October 1, 2032, 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**

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

Notice of redemption shall be given by the Loan and Transfer Agent via first-class mail not less than 30 days, nor more than 60 days, prior to the date fixed for redemption to the persons in whose names the Bonds to be redeemed are registered at the close of business on the fifth (5<sup>th</sup>) 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 the Bonds, or portions thereof, called for redemption shall accrue after the date fixed for redemption, and the registered holders of the Bonds, or portions thereof, called for redemption shall thereafter have no further right except to receive payment of the redemption price plus accrued interest to the redemption date.

If at the time of the notice of optional redemption, there shall not be on deposit in a restricted account with the State Treasurer money sufficient to redeem all the Bonds called for redemption, such notice shall state, unless the Commonwealth specifically directs otherwise in writing, that it is conditional, that is, subject to the deposit of the redemption money with the State Treasurer not later than the redemption date, and such notice shall be of no effect unless such money is so deposited.

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

### **SECURITY AND SOURCE OF PAYMENT FOR BONDS**

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

The Constitution of the Commonwealth of Pennsylvania (the "Constitution") places a claim on certain revenues of the Commonwealth 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 Office of Attorney General is set forth in Appendix F and the proposed form of the opinion of Co-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 but not limited to 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; Act No. 2010-48, approved July 7, 2010; Act No. 2013-77, approved October 25, 2013; Act No. 2017-45, approved October 30, 2017; Act No. 2019-43, approved July 2, 2019; Act No. 2020-25, approved May 29, 2020 (as so amended, the “Capital Facilities Debt Enabling Act”) and, annual capital budget bills and various bond authorization bills enacted by the General Assembly and 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 are shown in Table 1.

**Table 1**  
**Constitutional Debt Limit<sup>(a)</sup>**  
**February 28, 2022**  
(In Millions)

|                                                            |                    |
|------------------------------------------------------------|--------------------|
| Average Annual Tax Revenues FYs ended June 30, 2017-2021.. | \$ 43,007.6        |
| Times 1.75.....                                            | 75,263.3           |
| Less: Net Debt Outstanding <sup>(b)</sup> .....            | <u>9,467.4</u>     |
| Debt Issuable Within Limit .....                           | <u>\$ 67,795.9</u> |

<sup>(a)</sup> As certified by the Auditor General on February 28, 2022 (See Appendix A to this Official Statement).

<sup>(b)</sup> After credit for refunded debt.

**[INTENTIONALLY LEFT BLANK]**

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

**Table 2**  
**Pro Forma Remaining Debt Authorized After Issuance of the Bonds**

(In Millions)

| Capital Facilities Projects<br>Category | Debt                |                       | Remaining           | Remaining Debt                                |
|-----------------------------------------|---------------------|-----------------------|---------------------|-----------------------------------------------|
|                                         | Authorized          | Issued <sup>(a)</sup> | Debt<br>Authorized  | Authorized After<br>Issuance Of The<br>Bonds* |
| Buildings and Structures.....           | \$ 61,758.3         | \$ 13,498.5           | \$ 48,259.8         | \$ 47,709.8                                   |
| Furniture and Equipment.....            | 2,476.5             | 546.5                 | 1,930.0             | 1,930.0                                       |
| Transportation Assistance.....          | 16,039.6            | 4,561.9               | 11,477.7            | 11,302.7                                      |
| Redevelopment Assistance.....           | 77,693.9            | 5,199.8               | 72,494.2            | 72,219.2                                      |
| Community Colleges.....                 | 35.8                | 28.0                  | 7.8                 | 7.8                                           |
| Highway and Highway Bridge.....         | 43,341.3            | 3,287.5               | 40,053.8            | 40,053.8                                      |
| Flood Control.....                      | 1,255.2             | 65.8                  | 1,189.4             | 1,189.4                                       |
| Total.....                              | <u>\$ 202,600.6</u> | <u>\$ 27,188.0</u>    | <u>\$ 175,412.7</u> | <u>\$ 174,412.7</u>                           |

<sup>(a)</sup> 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 principal amount of debt currently authorized by the fiscal year 2021-2022 capital budget is as shown in Table 3 on the next page.

**Table 3**  
**Pro Forma Remaining Debt After Issuance of the Bonds**<sup>(a)</sup>

(In Millions)

| Capital Facilities Projects<br>Category | Limits           | Debt Issued<br>To Date | Remaining                | Remaining Debt                      |
|-----------------------------------------|------------------|------------------------|--------------------------|-------------------------------------|
|                                         |                  |                        | Issuable<br>Within Limit | Authorized After<br>Issuance Of The |
| Buildings and Structures.....           | \$ 550.0         | \$0.0                  | \$550.0                  | \$0.0                               |
| Furniture and Equipment.....            | 10.0             | 0.0                    | 10.0                     | 10.0                                |
| Transportation Assistance.....          | 175.0            | 0.0                    | 175.0                    | 0.0                                 |
| Redevelopment Assistance.....           | 275.0            | 0.0                    | 275.0                    | 0.0                                 |
| Flood Control.....                      | 0.0              | 0.0                    | 0.0                      | 0.0                                 |
| Total.....                              | <u>\$1,010.0</u> | <u>\$0.0</u>           | <u>\$1,010.0</u>         | <u>\$10.0</u>                       |

<sup>(a)</sup> The Bonds are being issued under the fiscal year 2021-2022 capital budget debt limits, which became effective on May 26, 2022.

After issuance of the Bonds under the fiscal year 2021-2022 capital budget, approximately \$10 million principal amount of debt will remain authorized and unissued thereunder. See “ESTIMATED USE OF PROCEEDS-Capital Facilities Projects.”

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

### ESTIMATED USE OF PROCEEDS

The Commonwealth is issuing the Bonds for the following purposes:

- (i) \$1,000,000,000 to provide for the construction, acquisition and major rehabilitation of capital facilities projects, as described below under “Capital Facilities Projects”,
- (ii) \$500,000 (approximately) will be used to pay all or a portion of the costs of issuance for the Bonds.

## Capital Facilities Projects

A portion of the proceeds of the Bonds will be deposited into the Capital Facilities Fund and applied: 1) to pay a portion of the costs of issuance of the Bonds and 2) to pay the financial costs of various capital facilities projects of the Commonwealth, including reimbursement of the State Treasury for previous payments made for costs incurred relating to various capital facilities projects. Of the combined \$1,000,000,000 aggregate principal amount of the Bonds issued for capital facilities projects: (i) \$550,000,000 aggregate principal amount of the bonds shall be allocated to the Department of General Services and used to fund the construction and major rehabilitation of public buildings for the Commonwealth and its institutions, approximately \$25,000,000 of which shall be applied to pay capital costs relating to public improvement projects administered by the Department of General Services, as provided for in the Capital Facilities Debt Enabling Act, including costs of administration, salaries and expenses of administrators, reviewing architects and engineers, construction inspectors, accountants and legal counsel of the Commonwealth and its agencies or authorities, incurred solely for the proper planning and supervision of such capital projects; (ii) \$275,000,000 aggregate principal amount of the bonds shall be allocated to the Office of the Budget to fund redevelopment assistance projects; (iii) \$175,000,000 aggregate principal amount of the Bonds shall be allocated to the Department of Transportation to fund transportation assistance projects. Pending application for the above purposes, the aforementioned proceeds of the Bonds will be held by the State Treasurer in the Capital Facilities Fund and invested in accordance with applicable state and federal laws.

## COMMONWEALTH GOVERNMENT

The Commonwealth of Pennsylvania (the “Commonwealth” or the “State” or “Pennsylvania”) is organized into three separate branches of government — executive, legislative and judicial — as defined in the State Constitution. Five officials of the Commonwealth’s executive branch are elected in Statewide elections for four-year terms expiring on the dates shown below.

| <u>Name</u>    | <u>Office</u>       | <u>Term Expires</u> |
|----------------|---------------------|---------------------|
| Tom Wolf       | Governor            | January 15, 2023    |
| John Fetterman | Lieutenant Governor | January 15, 2023    |
| Josh Shapiro   | Attorney General    | January 21, 2025    |
| Stacy Garrity  | State Treasurer     | January 21, 2025    |
| Timothy DeFoor | Auditor General     | January 21, 2025    |

## Commonwealth Employees

Employees are permitted to organize and bargain collectively. As of June 30, 2021, 80.4% of full-time salaried employees, under the Governor’s jurisdiction, were covered by collective bargaining agreements or memoranda of understanding, with approximately 39.3% of State employees represented by the American Federation of State, County and Municipal Employees (AFSCME). In early 2019, the Commonwealth reached four-year pacts effective through June 30, 2023 with AFSCME and most of the other 19 unions representing over 60% of the workforce. These contracts provide a general pay increase in each contract year which totals 10% and service increments in three of the four contract years for a maximum total of 16.75% over the contract term.

Interest arbitration awards typically dictate the employee salary increases and employee/employer health care contributions to be provided to, or on behalf of, employees covered by six public safety unions who possess the statutory right under Act 111 (1968) or Act 195 (1970) to have a neutral arbitrator decide the terms of a contract when parties reach impasse. In 2021, a negotiated contract was reached with the Pennsylvania State Troopers Association that expires on June 30, 2024. The Pennsylvania State Corrections Officers Association is currently working under the terms of a three-year contract issued by an interest arbitrator which expires on June 30, 2024. These two contracts, which apply to approximately 20% of the overall workforce, provide a general pay increase in each contract year totaling 5.5% and annual service increments for a maximum total of 14.5% over the three-year contract term. The Fraternal Order of Police (FOP) Lodge 85, who represent the Capitol Police, are working under the terms of a four-year negotiated contract effective through June 30, 2023. This contract provides a general pay increase in three of the four contract years totaling 7% and annual service increments for a maximum total of 17% over the contract term. The FOP Lodge 114 unit representing the law enforcement unit of the Pennsylvania Game Commission recently agree to a three-year contract effective through June 30, 2024. Said contract provides a general pay increase and a restructured pay

schedule that grants employees an increase in each of the three contract years totaling 7.75% and service increments in two years for a maximum total of 14.5% over the three-year contract term.

Tentative agreements have been recently reached with the two remaining public safety units whose contracts expired on June 30, 2021: the Pennsylvania State Rangers Association and the FOP Lodge 114 unit representing the Pennsylvania Fish and Boat Commission’s law enforcement unit. The terms of said agreements are currently being ratified by their respective memberships and closely mirror that agreed to by the referenced FOP Lodge 114 unit representing staff of the Pennsylvania Game Commission.

**Table 4**  
**Filled Salaried Positions and Employees**  
**Under Governor’s Jurisdiction<sup>(a)</sup>**  
**2017–2021**

| <u>As of<br/>July 1</u> | <u>Total Full and Part<br/>Time Filled<br/>Salaried Positions</u> | <u>Total Full Time<br/>Salaried Positions</u> | <u>Union<br/>Positions</u> | <u>Union Positions As<br/>a % of Total Filled<br/>Salaried Positions</u> |
|-------------------------|-------------------------------------------------------------------|-----------------------------------------------|----------------------------|--------------------------------------------------------------------------|
| 2017                    | 72,815                                                            | 72,560                                        | 58,926                     | 80.9                                                                     |
| 2018                    | 72,074                                                            | 71,848                                        | 58,315                     | 80.9                                                                     |
| 2019                    | 72,429                                                            | 72,244                                        | 58,482                     | 80.7                                                                     |
| 2020                    | 72,420                                                            | 72,209                                        | 58,220                     | 80.4                                                                     |
| 2021                    | 71,801                                                            | 71,606                                        | 57,553                     | 80.2                                                                     |

Source: Office of Administration, 2022 State Government Workforce Statistics.

<sup>(a)</sup> 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.

## COMMONWEALTH FINANCIAL STRUCTURE AND PROCEDURES

The Constitution and the laws of the Commonwealth require all payments from the State Treasury except for 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 categorized as 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. For example, fiscal year 2021 refers to the fiscal year ended June 30, 2021.

### 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. Most 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. 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 certain 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. 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 deposited 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 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 chamber 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" 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 other 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 most 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 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 financial information, both revenues and expenditures, are 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 financial reporting for governmental funds requires a modified accrual basis of accounting, while proprietary and fiduciary funds are reported on the accrual basis of accounting.

Financial statements of the Commonwealth's government funds prepared under GAAP differ from those traditionally prepared on a budgetary basis for several reasons. Among other differences, the GAAP financial statements for government funds (i) generally recognize revenues when they become measurable and available rather than when cash is received, (ii) report expenditures when goods and services are received and a liability incurred rather than when cash is disbursed, (iii) include a combined balance sheet for the Commonwealth presented by GAAP fund type rather than by Commonwealth fund, and (iv) include activities of all funds in the reporting entity, including agencies and authorities usually considered as independent of the Commonwealth for budgetary purposes. Adjustments to budgetary

basis revenues and expenditures required to conform to GAAP accounting generally require including (i) corporation, sales, and personal income tax accruals, (ii) tax refunds payable and tax credits, and (iii) expenditures incurred but not yet posted as expenditures or not covered by appropriations.

An independent public accounting firm and the Department of the Auditor General jointly audit the Commonwealth's annual GAAP basis financial statements. The audited Basic Financial Statements are a component of the Commonwealth's Annual Comprehensive Financial Report ("ACFR"). The ACFRs for recent fiscal years, including the fiscal year ended June 30, 2021, 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 Publication & Reports – Annual Financial Report section of the Office of the Budget's website – ([www.budget.state.pa.us](http://www.budget.state.pa.us)). The ACFRs for the years ended June 30, 2020 and 2021 are incorporated herein by reference. See also "COMMONWEALTH FINANCIAL PERFORMANCE – Financial Statements Introduction" below.

### **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 Commonwealth's bonds and the funds held for the payment of interest on and maturing principal of the Commonwealth's 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 three-member board of State officials chaired by the State Treasurer, is authorized to establish the aggregate amount of funds that may be invested in some of the various categories of permitted investments. The State Treasurer ultimately determines the asset allocation and selects the investments within the parameters of the law.

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

The State Treasurer has been legislatively authorized to invest Commonwealth moneys in securities under the "prudent investor" standard since June 1999. The common investment pool operated by the State Treasurer for the investment of operating funds of the Commonwealth maintains a portion of its investments in securities subject to this test. Act 20 of 2019 - extends this authority to December 31, 2024.

### **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 chambers of the General Assembly. Any funds appropriated from the Budget Stabilization Reserve Fund that are not spent are returned to the Budget Stabilization Reserve Fund. As of June 30, 2022, the Budget Stabilization Reserve Fund had a balance of approximately \$2,868.5 million. The enacted 2022-2023 budget includes a transfer of \$2,100 million to the fund.

## COMMONWEALTH FINANCIAL PERFORMANCE

### Fiscal Year 2022 Budget

The Pennsylvania legislature approved, and the Governor signed, a fiscal year 2022 budget on July 8, 2022. The enacted budget allocates \$42,800 million to the state General Fund (defined below). The budget includes increases in education funding at all levels and preserves funding for core state government functions and services. The fiscal year 2022 budget can be viewed at the Governor's Budget Office website at: [www.budget.state.pa.us](http://www.budget.state.pa.us).

### Financial Statements Introduction

The most recent Commonwealth audited financial statements are available in the ACFR of the Commonwealth for the fiscal year ended June 30, 2021, which was issued on December 10, 2021. Copies of the ACFRs beginning with fiscal year 2017 through fiscal year 2021 issued by the Commonwealth are available from (i) the Secretary of the Budget, Attn: Mr. Mike Higgins, 555 Walnut Street, 9<sup>th</sup> Floor, Harrisburg, Pennsylvania 17101 (Telephone (717) 425-6736), and (ii) Publication & Reports – Annual Financial Report section of the Office of the Budget's website at [www.budget.state.pa.us](http://www.budget.state.pa.us), which ACFRs are incorporated herein by reference. The audited Basic Financial Statements for fiscal year 2020 included in the ACFR for fiscal year 2021 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 Official Statement in its entirety.

#### *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 on a fund-by-fund basis; 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 treatment results in including in assets an estimate of the total amount of receivables due at fiscal year-end that are expected to be collected in the future. Capital assets are reported with acquisition or construction costs being reported when the assets are placed in service less accumulated depreciation. Reported liabilities include all liabilities, regardless of when payment is due, including bond principal, employee disability claims liability, and employee compensated absence liabilities.

Table 5, on the next page, presents condensed comparative financial information derived from the Commonwealth's government-wide June 30 Statements of Net Position for the fiscal years indicated.

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**Table 5**  
**Government-Wide Condensed Statement of Net Position**  
**As of June 30, 2020-2021**  
(In Millions)

|                                     | Governmental Activities |                   | Business-Type Activities |                   | Total Primary Government |                   |
|-------------------------------------|-------------------------|-------------------|--------------------------|-------------------|--------------------------|-------------------|
|                                     | 2021                    | 2020              | 2021                     | 2020              | 2021                     | 2020              |
| <b>Assets:</b>                      |                         |                   |                          |                   |                          |                   |
| Cash and investments.....           | \$ 23,490               | \$ 10,508         | \$ 7,060                 | \$ 7,326          | \$ 30,550                | \$ 17,834         |
| Capital assets (net).....           | 42,640                  | 40,905            | 1,055                    | 752               | 43,695                   | 41,657            |
| All other assets.....               | 14,102                  | 14,304            | 2,957                    | 6,526             | 17,059                   | 20,830            |
| <b>Total assets.....</b>            | <b>80,232</b>           | <b>65,717</b>     | <b>11,072</b>            | <b>14,604</b>     | <b>91,304</b>            | <b>80,321</b>     |
| <b>Total deferred outflows.....</b> | <b>7,571</b>            | <b>4,122</b>      | <b>316</b>               | <b>198</b>        | <b>7,887</b>             | <b>4,320</b>      |
| <b>Liabilities:</b>                 |                         |                   |                          |                   |                          |                   |
| Accounts payable.....               | 11,867                  | 11,170            | 2,200                    | 6,096             | 14,067                   | 17,266            |
| All other current liabilities.....  | 12,362                  | 7,971             | 2,507                    | 943               | 14,869                   | 8,914             |
| Bonds payable, non-current.....     | 10,821                  | 10,674            | 4,490                    | 4,281             | 15,311                   | 14,955            |
| All other long-term liabilities...  | 39,744                  | 34,788            | 4,121                    | 3,886             | 43,865                   | 38,674            |
| <b>Total liabilities.....</b>       | <b>74,794</b>           | <b>64,603</b>     | <b>13,318</b>            | <b>15,206</b>     | <b>88,112</b>            | <b>79,809</b>     |
| <b>Total deferred inflows.....</b>  | <b>10,447</b>           | <b>11,862</b>     | <b>696</b>               | <b>647</b>        | <b>11,143</b>            | <b>12,509</b>     |
| <b>Net position:</b>                |                         |                   |                          |                   |                          |                   |
| Net invested in capital assets....  | 36,091                  | 34,889            | 769                      | 753               | 36,860                   | 35,642            |
| Restricted.....                     | 4,251                   | 3,194             | 1,348                    | 2,896             | 5,599                    | 6,090             |
| Deficit.....                        | (37,780)                | (44,709)          | (4,763)                  | (4,700)           | (42,543)                 | (49,409)          |
| <b>Total net position.....</b>      | <b>\$ 2,562</b>         | <b>\$ (6,626)</b> | <b>\$ (2,626)</b>        | <b>\$ (1,051)</b> | <b>\$ (64)</b>           | <b>\$ (7,677)</b> |

Source: ACFR, fiscal year ended June 30, 2021 (GAAP).

Net position is one way of monitoring the health of the Commonwealth's finances. Total net position is the difference between total assets and total deferred outflows of resources less total liabilities and total deferred inflows of resources as reported on the statement of net position. Total net position is reported in three distinct components: net investment in capital assets; restricted net position; and unrestricted net position.

Net investment in capital assets represents total capital assets less accumulated depreciation and the outstanding liability (excluding unspent proceeds) for debt specifically related to the construction and acquisition of the capital assets. At June 30, 2021, governmental and business-type activities, respectively, reported net investment in capital assets of \$36,091 million and \$769 million.

Restricted net position is reported based on constraints imposed by either: 1) creditors, grantors, contributors, or laws or regulations of the Federal or other governments; or 2) Commonwealth enabling legislation. At June 30, 2021, governmental and business-type activities, respectively, reported \$4,251 million and \$1,348 million of restricted net position.

Unrestricted net position represents total net position less the amounts of net investment in capital assets and restricted net position. At June 30, 2021, governmental and business-type activities, respectively, reported unrestricted net position deficits of \$37,780 million and \$4,763 million.

***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 for other Commonwealth funds categorized as Governmental funds and reported as such in the Basic 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, and the Motor License Fund are major governmental funds) as of June 30, 2021, were \$38,411 million. Liabilities for the same date totaled \$23,604.7 million and deferred inflows of resources totaled \$3,665.4 million resulting in a fund balance of \$11,140.8 million, an increase of \$6,961.6 million from the fund balance at June 30, 2020. On a fund specific basis, in comparison to fiscal year 2020 ending fund balances, the fund balance for the General Fund increased by \$4,598.2 million, the fund balance for the Motor License Fund increased by \$712 million and the fund balance for aggregated non-major funds increased by \$1,651.3 million. See "General Fund – Fiscal Year 2021 Financial Results" and "Motor License Fund – Fiscal Year 2021 Financial Results" herein.

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 presentation of financial information, the following reconciliation is presented in Table 6 below:

**Table 6**  
**Reconciliation of the Balance Sheet**  
**Governmental Funds (Fund Perspective) to**  
**the Statement of Net Position - Governmental Activities**  
**June 30, 2021**  
**(In Thousands)**

|                                                          |                      |
|----------------------------------------------------------|----------------------|
| <b>Fund Balances - Governmental Funds</b>                |                      |
| General Fund.....                                        | \$ 3,073,026         |
| Motor License Fund.....                                  | 1,307,435            |
| Nonmajor Funds.....                                      | 6,760,409            |
| <b>Total Fund Balance - Governmental Funds.....</b>      | <b>\$ 11,140,870</b> |
| Plus: Capital Assets, including infrastructure.....      | \$ 78,109,708        |
| Less: Accumulated depreciation.....                      | (35,808,989)         |
| Plus: Deferred revenue.....                              | 3,661,398            |
| Plus: Deferred outflows of resources.....                | (81,853)             |
| Plus: Other miscellaneous adjustments.....               | (2)                  |
| Plus: Net assets of internal service funds.....          | (30,851)             |
| Plus: Inventories.....                                   | 105,355              |
| Less: Net pension liabilities.....                       | (13,959,361)         |
| Less: Other postemployment benefit liabilities.....      | (23,413,061)         |
| Less: Other asset retirement obligations.....            | 160,239              |
| Less: Long-term liabilities.....                         | (17,321,436)         |
| <b>Total Net Position - Governmental Activities.....</b> | <b>\$ 2,562,017</b>  |

Source: Annual Comprehensive Financial Report, fiscal year ended June 30, 2021.

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 and the textual discussions that follow containing GAAP basis financial data are unaudited but are derived from the Commonwealth's ACFRs for fiscal years 2017-2021 and unaudited budgetary basis financial data for fiscal year 2020 and 2021. 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 fiscal year 2022 enacted budget reflects a budgetary basis analysis rather than a GAAP basis analysis.

Recent financial results for the Commonwealth's major operating funds, the General Fund, the Motor License Fund and the State Lottery Fund and other relevant financial information are described in detail in the narrative below.

### **General Fund**

The General Fund is the Commonwealth's largest operating fund. All tax revenue, non-tax revenue and federal grants and entitlements not specified by law to be deposited elsewhere are deposited into the General Fund. The General Assembly makes appropriations of specific amounts from tax revenue and certain non-tax revenue of the General Fund.

***Financial Results for Fiscal Years 2017-2021***

The following five-year table presents information on a GAAP basis taken from the ACFR for fiscal years June 30, 2017 through June 30, 2021.

*GAAP Basis.* During the five-year period from fiscal year 2017 through fiscal year 2021, total revenues and other sources increased by an average annual rate of 6.0 percent. Tax revenues during this same period increased by an annual average rate of 4.3 percent. Expenditures and other uses during fiscal years 2017 through 2021 rose at an average annual rate of 4.5 percent. Expenditures for the protection of persons and property during this period increased at an average annual rate of 3.4 percent; public education expenditures during this period increased at an average annual rate of 2.1 percent; health and human services expenditures increased at an average annual rate of 5.2 percent; and capital outlays increased at an average annual rate of 8.2 percent. Commonwealth expenditures for direction and support services (State employees and government administration) increased at an average annual rate of 14.1 percent during fiscal years 2017 through 2021.

Table 7, on the next page, presents a summary of revenues, expenditures and fund balance (GAAP basis) for the General Fund for fiscal years 2017 through 2021.

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**Table 7**  
**Results of Operations – General Fund**  
**GAAP Basis - Unaudited**

(In Thousands)

Fiscal Year Ended June 30

|                                                                       | 2017                | 2018                | 2019                | 2020                  | 2021                  |
|-----------------------------------------------------------------------|---------------------|---------------------|---------------------|-----------------------|-----------------------|
| <b>Fund Balance — Beginning of Period .....</b>                       | \$ 90,197           | \$ (697,568)        | \$ 813,710          | \$ 835,414            | \$ (1,525,446)        |
| Restatements.....                                                     | -                   | -                   | -                   | -                     | -                     |
| <b>Fund Balance — Beginning of Period, as Restated.....</b>           | <b>\$ 90,197</b>    | <b>\$ (697,568)</b> | <b>\$ 813,710</b>   | <b>\$ 835,414</b>     | <b>\$ (1,525,446)</b> |
| <b>Revenues:</b>                                                      |                     |                     |                     |                       |                       |
| Taxes.....                                                            | \$30,072,951        | \$31,131,530        | \$33,074,546        | \$ 32,687,322         | \$ 37,181,965         |
| Licenses and fees.....                                                | 586,815             | 812,100             | 854,757             | 613,793               | 702,093               |
| Intergovernmental.....                                                | 26,964,688          | 26,476,775          | 28,215,760          | 33,325,865            | 39,636,245            |
| Charges for sales and services.....                                   | 2,749,478           | 2,991,557           | 3,356,759           | 3,703,708             | 3,957,922             |
| Other revenues.....                                                   | 364,994             | 283,828             | 301,908             | 386,825               | 347,300               |
| <b>Other Financing Sources:</b>                                       |                     |                     |                     |                       |                       |
| Operating transfers in.....                                           | 1,342,969           | 2,459,826           | 1,207,913           | 508,058               | 961,805               |
| Premium on debt issuance.....                                         | -                   | 15,535              | -                   | -                     | 7,627                 |
| Other financing agreements.....                                       | -                   | 201,115             | -                   | -                     | 75,195                |
| Bonds issued and bond premiums.....                                   | -                   | -                   | -                   | -                     | -                     |
| Other additions.....                                                  | -                   | -                   | 1,578               | 3,460                 | 114,152               |
| <b>TOTAL REVENUES AND OTHER SOURCES..</b>                             | <b>\$62,081,895</b> | <b>\$64,372,266</b> | <b>\$67,013,221</b> | <b>\$ 71,229,031</b>  | <b>\$ 82,984,304</b>  |
| <b>Expenditures:</b>                                                  |                     |                     |                     |                       |                       |
| Direction and supportive services.....                                | \$ 669,491          | \$ 907,813          | \$ 908,473          | \$ 1,267,988          | \$ 1,296,900          |
| Protection of persons and property.....                               | 4,540,329           | 4,514,633           | 4,806,069           | 4,647,132             | 5,365,030             |
| Health and human services.....                                        | 39,688,917          | 39,447,145          | 42,633,941          | 47,128,172            | 51,172,007            |
| Public education.....                                                 | 15,705,958          | 15,832,100          | 16,295,404          | 16,824,044            | 17,398,728            |
| Recreation and cultural enrichment.....                               | 305,531             | 308,792             | 324,364             | 341,621               | 341,335               |
| Economic development.....                                             | 487,300             | 406,499             | 493,406             | 1,400,678             | 561,813               |
| Transportation.....                                                   | 28,400              | 62,969              | 57,473              | 58,193                | 86,243                |
| Capital outlay.....                                                   | 158,177             | 99,552              | 127,394             | 106,233               | 234,753               |
| Debt service.....                                                     | 22,794              | 28,083              | 30,760              | 65,186                | 68,074                |
| <b>Other Uses:</b>                                                    |                     |                     |                     |                       |                       |
| Operating transfers out.....                                          | 1,262,763           | 1,253,402           | 1,314,257           | 1,750,401             | 1,860,949             |
| <b>TOTAL EXPENDITURES AND OTHER USES</b>                              | <b>\$62,869,660</b> | <b>\$62,860,988</b> | <b>\$66,991,541</b> | <b>\$ 73,589,648</b>  | <b>\$ 78,385,832</b>  |
| REVENUES AND OTHER SOURCES OVER<br>(UNDER) EXPENDITURE AND OTHER USES | (787,765)           | 1,511,278           | 21,680              | (2,360,617)           | 4,598,472             |
| <b>Fund Balance — End of Period .....</b>                             | <b>\$ (697,568)</b> | <b>\$ 813,710</b>   | <b>\$ 835,390</b>   | <b>\$ (1,525,203)</b> | <b>\$ 3,073,026</b>   |
| <b>Components of Fund Balance</b>                                     |                     |                     |                     |                       |                       |
| Nonspendable.....                                                     | \$ 218,343          | \$ 201,500          | \$ 183,102          | \$ 170,248            | \$ 103,772            |
| Restricted.....                                                       | 78                  | 1,378               | 8,791               | 21,779                | 206,572               |
| Committed.....                                                        | 2,321,358           | 2,737,182           | 2,820,739           | 3,181,608             | 3,379,346             |
| Assigned.....                                                         | -                   | -                   | -                   | -                     | -                     |
| Unassigned deficit.....                                               | (3,237,347)         | (2,126,350)         | (2,177,242)         | (4,898,838)           | (616,664)             |
| <b>TOTAL FUND BALANCE.....</b>                                        | <b>\$ (697,568)</b> | <b>\$ 813,710</b>   | <b>\$ 835,390</b>   | <b>\$ (1,525,203)</b> | <b>\$ 3,073,026</b>   |

Source: Compiled from Office of the Budget, Annual Comprehensive Financial Reports for fiscal years ended June 30, 2017 through 2021 (GAAP).

***Fiscal Year 2017 Financial Results***

*GAAP Basis.* At June 30, 2017, the General Fund reported a fund deficit of \$697.6 million, a decrease to fund balance of \$787.7 million from the \$90.2 million fund balance at June 30, 2016 as expenditures and other uses increased by \$5,454.4 million and revenues and other sources increased by \$4,860.1 million.

*Budgetary Basis.* General Fund revenues of the Commonwealth were below the certified estimate by \$1,106.7 million or 3.4 percent during fiscal year 2017. Final Commonwealth General Fund revenues for the fiscal year totaled \$31,669 million. Total expenditures, net of appropriation lapses and including public health and human services assessments and expenditures from additional sources, were \$31,941.8 million. After accounting for a positive fiscal

year 2017 beginning balance of \$5.1 million, the Commonwealth ended fiscal year 2017 with a deficit balance of \$1,539.3 million.

General Fund revenues increased \$767.4 million or 2.5 percent during fiscal year 2017 when measured on a year-over-year basis as compared to fiscal year 2016. Tax revenue collections increased \$495.2 million or 1.6 percent on a year-over-year basis from fiscal year 2016 to fiscal year 2017 while non-tax revenue collections increased \$272.9 million or 42.4 percent from fiscal year 2016 to fiscal year 2017. Corporate tax receipts were \$319.3 million lower than fiscal year 2016 levels. The year-over-year decrease in corporate taxes was 6.2 percent during fiscal year 2017 as corporate net income tax collections decreased 3.2 percent and financial institutions tax decreased 2.3 percent. Personal income taxes were \$158.4 million above fiscal year 2016 actual collection and the year-over-year growth in personal income tax receipts was 1.3 percent. Personal income tax collections attributable to withholding increased by 2.4 percent or \$223.5 million during fiscal year 2017 and tax collections from the non-withholding portion of the personal income tax decreased 2.1 percent or \$65.1 million on a year-over-year basis. Sales and use taxes receipts were \$210 million greater during fiscal year 2017 than during the prior fiscal year, a growth rate of 2.1 percent. Sales tax collections increased during fiscal year 2017 as non-motor vehicle sales tax collections grew 2.3 percent and motor vehicle sales tax receipts increased 1.5 percent during fiscal year 2017. Cigarette tax collections increased 38.4 percent during fiscal year 2017 and inheritance tax collections increased 1.6 percent. Realty transfer tax revenues declined 0.8 percent during fiscal year 2017.

Commonwealth General Fund appropriations for fiscal year 2017 totaled \$31,941.8 million, an increase of \$1,814.6 million or 6.0 percent from fiscal year 2016 levels. The ending unappropriated balance was a deficit of \$1,539.3 million for fiscal year 2017.

#### ***Fiscal Year 2018 Financial Results***

*GAAP Basis.* At June 30, 2018, the General Fund reported a fund balance of \$813.7 million, an increase to fund balance of \$1,511.3 million from the \$697.6 million fund deficit balance at June 30, 2017 as expenditures and other uses decreased by \$8.7 million and revenues and other sources increased by \$2,290.4 million.

*Budgetary Basis.* General Fund revenues of the Commonwealth were below the certified estimate by \$137.2 million or 0.4 percent during fiscal year 2018. Final Commonwealth General Fund revenues for the fiscal year totaled \$34,567 million. Total expenditures, net of appropriation lapses and including public health and human services assessments and expenditures from additional sources, were \$31,948.1 million. After accounting for a deficit balance in fiscal year 2018 beginning balance of (\$1.5) billion, the Commonwealth ended fiscal year 2018 with an unappropriated surplus balance of \$22.4 million.

General Fund revenues increased \$2,897.4 million or 9.2 percent during fiscal year 2018 when measured on a year-over-year basis as compared to fiscal year 2017. Tax revenue collections increased \$1,251.1 million or 4.1 percent on a year-over-year basis from fiscal year 2017 to fiscal year 2018 while non-tax revenue collections increased \$1,646.9 million or 180 percent from fiscal year 2017 to fiscal year 2018. Corporate tax receipts were \$107.7 million higher than fiscal year 2017 levels. The year-over-year increase in corporate taxes was 2.3 percent during fiscal year 2018 as corporate net income tax collections increased 4.6 percent and financial institutions tax increased 15.1 percent. Personal income taxes were \$734.6 million above fiscal year 2017 actual collection and the year-over-year growth in personal income tax receipts was 5.8 percent. Personal income tax collections attributable to withholding increased by 4.4 percent or \$422.1 million during fiscal year 2018 and tax collections from the non-withholding portion of the personal income tax increased 10.2 percent or \$312.5 million on a year-over-year basis. Sales and use taxes receipts were \$376.9 million greater during fiscal year 2018 than during the prior fiscal year, a growth rate of 3.8 percent. Sales tax collections increased during fiscal year 2018 as non-motor vehicle sales tax collections grew 4.1 percent and motor vehicle sales tax receipts increased 1.9 percent during fiscal year 2018. Cigarette tax collections decreased 5 percent during fiscal year 2018 and inheritance tax collections increased 4.2 percent. Realty transfer tax revenues increased 7.6 percent during fiscal year 2018.

Commonwealth General Fund appropriations for fiscal year 2018 totaled \$31,948.1 million, an increase of \$6.3 million or .02 percent from fiscal year 2017 levels. The ending unappropriated balance was \$22.4 million for fiscal year 2018.

### ***Fiscal Year 2019 Financial Results***

*GAAP Basis.* At June 30, 2019, the General Fund reported a fund balance of \$835.4 million, an increase to fund balance of \$21.7 million from the \$813.7 million fund balance at June 30, 2018 as expenditures and other uses increased by \$4,130.6 million and revenues and other sources increased by \$2,641 million.

*Budgetary Basis.* General Fund revenues of the Commonwealth were above the certified estimate by \$883 million or 2.6 percent during fiscal year 2019. Final Commonwealth General Fund revenues for the fiscal year totaled \$34,857.9 million. Total expenditures, net of appropriation lapses and including public health and human services assessments and expenditures from additional sources, were \$33,401.5 million. The Commonwealth ended fiscal year 2019 with a zero-balance due to a transfer of \$316.9 million to the Budget Stabilization Reserve Fund.

General Fund revenues increased \$290.9 million or 0.8 percent during fiscal year 2019 when measured on a year-over-year basis as compared to fiscal year 2018. Tax revenue collections increased \$2,052.9 million or 6.4 percent on a year-over-year basis from fiscal year 2018 to fiscal year 2019 while non-tax revenue collections decreased \$1,761.9 million or negative 68.7 percent from fiscal year 2018 to fiscal year 2019. Corporate tax receipts were \$622.1 million higher than fiscal year 2018 levels. The year-over-year increase in corporate taxes was 12.7 percent during fiscal year 2019 as corporate net income tax collections increased 18 percent. Personal income taxes were \$696.6 million above fiscal year 2018 actual collection and the year-over-year growth in personal income tax receipts was 5.2 percent. Personal income tax collections attributable to withholding increased by 4.1 percent or \$407.4 million during fiscal year 2019 and tax collections from the non-withholding portion of the personal income tax increased 8.6 percent or \$289.2 million on a year-over-year basis. Sales and use taxes receipts were \$718.3 million greater during fiscal year 2019 than during fiscal year 2018, a growth rate of 6.9 percent. Sales tax collections increased during fiscal year 2019 as non-motor vehicle sales tax collections grew 7 percent and motor vehicle sales tax receipts increased 6.5 percent during fiscal year 2019. Cigarette tax collections decreased 6.6 percent during fiscal year 2019 and inheritance tax collections increased 3.4 percent. Realty transfer tax revenues increased 3.4 percent during fiscal year 2019.

Commonwealth General Fund appropriations for fiscal year 2019 totaled \$33,401.5 million, an increase of \$1,453.4 million or 4.5 percent from fiscal year 2018 levels. The ending unappropriated balance was zero after transferring \$316.9 million to the Budget Stabilization Reserve Fund.

The following budgetary basis information is derived from the Commonwealth's unaudited budgetary basis financial statements for fiscal years 2019 and 2020 and the enacted fiscal year 2021 budget.

### ***Fiscal Year 2020 Financial Results***

*GAAP Basis.* At June 30, 2020, the General Fund reported a negative fund balance of \$1,525.2 million, a decrease to fund balance of \$2,360.5 million from the \$835.4 million fund balance at June 30, 2019. The majority of this decrease was due to the shifting of tax filing dates for personal and corporate taxes because of the COVID-19 PANDEMIC.

*Budgetary Basis.* General Fund revenues of the Commonwealth were below the certified estimate by \$3,221 million or 9.1 percent during fiscal year 2020. The majority of this difference was due to the Commonwealth shifting the filing date for personal and corporate income tax by 90 days. Final Commonwealth General Fund revenues for the fiscal year totaled \$32,275.8 million. Total expenditures, net of appropriation lapses and including public health and human services assessments and expenditures from additional sources, were \$34,090.2 million. After accounting for a positive fiscal year 2020 beginning balance of \$30.3 million, the Commonwealth ended fiscal year 2020 with an unappropriated negative balance of \$2,734.1 million. (See "Table 8").

General Fund revenues decreased \$2,582.1 million or 7.4 percent during fiscal year 2020 when measured on a year-over-year basis as compared to fiscal year 2019. Tax revenue collections decreased \$2,445.5 million or 7.2 percent on a year-over-year basis from fiscal year 2019 to fiscal year 2020 while non-tax revenue collections decreased \$136.6 million or 17.0 percent from fiscal year 2019 to fiscal year 2020. Corporate tax receipts were \$671.8 million lower than fiscal year 2019 levels. The year-over-year decrease in corporate taxes was 12.2 percent during fiscal year 2020 as corporate net income tax collections decreased 16.8 percent and financial institutions tax increased 5.1 percent. Personal income taxes were \$1,260.5 million below fiscal year 2019 actual collection and the year-over-year decrease in

personal income tax receipts was 8.9 percent. Personal income tax collections attributable to withholding increased by 0.9 percent or \$98.9 million during fiscal year 2020 and tax collections from the non-withholding portion of the personal income tax decreased 59.3 percent or \$1,359.4 million on a year-over-year basis. Sales and use taxes receipts were \$281.8 million less during fiscal year 2020 than during the prior fiscal year, a decrease of 2.5 percent. Cigarette tax collections declined 17.4 percent during fiscal year 2020 and inheritance tax collections increased 2.7 percent. Realty transfer tax revenues decreased by 6.8 percent during fiscal year 2020.

Commonwealth General Fund appropriations for fiscal year 2020 totaled \$34,120.2 million, an increase of \$718.7 million or 2.1 percent from fiscal year 2019 levels. The ending unappropriated negative balance was \$2,734.1 million for fiscal year 2020.

#### ***Fiscal Year 2021 Financial Results***

*GAAP Basis.* At June 30, 2021, the General Fund reported a fund balance of \$3,073.0 million, an increase of \$4,598.2 million from the \$1,525.2 million negative fund balance at June 30, 2020.

*Budgetary Basis.* General Fund revenues of the Commonwealth were above the certified estimate by \$3,437.3 million or 9.3 percent during fiscal year 2021. Final Commonwealth General Fund revenues for the fiscal year totaled \$40,392.0 million. Total expenditures, net of appropriation lapses and including public health and human services assessments and expenditures from additional sources, were \$34,013.2 million. After accounting for a negative fiscal year 2021 beginning balance of \$2,734.0 million, the Commonwealth ended fiscal year 2021 with a surplus of \$2,621.5 million and transferred the surplus to the Budget Stabilization Fund (See “Table 8”).

General Fund revenues increased \$8,116.1 million or 25.1 percent during fiscal year 2021 when measured on a year-over-year basis as compared to fiscal year 2020. Tax revenue collections increased \$7,568.7 million or 23.9 percent on a year-over-year basis from fiscal year 2020 to fiscal year 2021 while non-tax revenue collections increased \$547.4 million or 82.3 percent from fiscal year 2020 to fiscal year 2021. Corporate tax receipts were \$1,494.4 million higher than fiscal year 2020 levels. The year-over-year increase in corporate taxes was 30.9 percent during fiscal year 2021 as corporate net income tax collections increased 56.5 percent and financial institutions tax increased 8.2 percent. Personal income taxes were \$3,448.3 million above fiscal year 2020 actual collection and the year-over-year decrease in personal income tax receipts was 26.9 percent. Personal income tax collections attributable to withholding increased by 2.8 percent or \$295.2 million during fiscal year 2021 and tax collections from the non-withholding portion of the personal income tax increased 137.6 percent or \$3,153.1 million on a year-over-year basis. Sales and use taxes receipts were \$2,017.0 million more during fiscal year 2021 than during the prior fiscal year, an increase of 18.6 percent. Cigarette tax collections increased 4.3 percent during fiscal year 2021 and inheritance tax collections increased 24.3 percent. Realty transfer tax revenues increased by 28.6 percent during fiscal year 2021.

Commonwealth General Fund appropriations for fiscal year 2021 totaled \$34,013.2 million, a decrease of \$77.0 million or -0.2 percent from fiscal year 2020 levels. The ending balance of \$2,621.5 million for fiscal year 2021 was transferred to the Budget Stabilization Fund.

#### ***Fiscal Year 2022 Financial Results***

*Budgetary Basis.* General Fund revenues of the Commonwealth were above the certified estimate by \$5,598.0 million or 13.2 percent during fiscal year 2022. Final Commonwealth General Fund revenues for the fiscal year totaled \$48,134.2 million. Total expenditures, net of appropriation lapses and including public health and human services assessments and expenditures from additional sources, were \$39,351.2 million. After accounting for a fiscal year 2022 beginning balance of \$4.4 million, and a transfer to the Budget Stabilization Fund the Commonwealth ended fiscal year 2022 with a surplus of \$5,537.4 million (See “Table 8” on the next page).

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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 Thousands)

| <b>Sources:</b>                                    | <b>Actual</b>           | <b>Actual</b>           | <b>Enacted</b>          |
|----------------------------------------------------|-------------------------|-------------------------|-------------------------|
|                                                    | <b>Fiscal Year 2021</b> | <b>Fiscal Year 2022</b> | <b>Fiscal Year 2023</b> |
| Beginning Balance (Plus Adjustments).....          | \$ (2,715,275)          | \$ 4,450                | \$ 5,537,421            |
| Revenue Receipts.....                              | 40,392,018              | 48,134,220              | 43,579,700              |
| Refunds.....                                       | (1,262,000)             | (1,420,000)             | (1,220,100)             |
| Prior Year Lapses.....                             | 220,000                 | 270,012                 | 140,975                 |
| Funds Available.....                               | <u>\$ 36,634,743</u>    | <u>\$ 46,988,682</u>    | <u>\$ 48,037,996</u>    |
| <b>Uses:</b>                                       |                         |                         |                         |
| Appropriations.....                                | \$ 34,013,227           | \$ 38,593,030           | \$ 42,765,617           |
| Supplemental Appropriations/Current Year Lapses... | 0                       | 758,231                 | 0                       |
| Total Expenditures.....                            | <u>\$ 34,013,227</u>    | <u>\$ 39,351,261</u>    | <u>\$ 42,765,617</u>    |
| Preliminary Balance.....                           | \$ 2,621,516            | \$ 7,637,421            | \$ 5,272,379            |
| Transfer to Budget Stabilization Fund.....         | (2,621,516)             | (2,100,000)             | 0                       |
| Ending Unappropriated Balance.....                 | <u>\$ -</u>             | <u>\$ 5,537,421</u>     | <u>\$ 5,272,379</u>     |

Source: Office of the Budget

***Fiscal Year 2023 Enacted Budget***

The enacted fiscal year 2023 budget appropriates \$42,765.6 million in state funds and federal stimulus funding. The budget document and related information are available on the Office of the Budget’s website at [www.budget.state.pa.us](http://www.budget.state.pa.us) and incorporated herein by reference.

The General Fund is the primary funding source for most State agencies and institutions supported by the Commonwealth. More than 77 cents of every dollar are returned to individuals, local governments, institutions, school districts, and others in the form of grants and subsidies. The remainder pays operating expenses and debt service. Major program expenditures occur in the areas of education, public health and human services, and the State correctional institutions.

**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. In contrast, the GAAP basis presentations include all the restricted account revenues and expenditures.

***Financial Results for Fiscal Years 2017-2021***

The following five-year table presents information on a GAAP basis taken from the fiscal year 2021 ACFR.

*GAAP Basis.* The fund balance at June 30, 2021, of the Motor License Fund was \$1,307.4 million, a \$712.0 million or 119.6 percent increase from the June 30, 2020 fund balance. Over five fiscal years, 2017 through 2021,

revenues and other sources averaged an annual 0.9 percent increase. Expenditures and other uses during the same period averaged a 0.7 percent annual decrease.

Overall, total revenues and other sources increased by \$852.0 million during the fiscal year that ended June 30, 2021, a 13.5 percent increase over the prior fiscal year. Tax revenues increased \$179.4 million primarily due to the increase in the liquid fuels tax. Licenses and fees increased \$38.9 million due to increased vehicle registrations and driver licenses. During the prior fiscal year, extensions were granted for the expirations of vehicle registrations, drivers license, and learner’s permits, including commercial driver’s licenses. These extensions expired during the fiscal year ending June 30, 2021.

Total expenditures and other uses decreased by \$136.6 million during fiscal year ended June 30, 2021, representing a 2.1 percent decrease over the prior fiscal year. Transportation expenditures decreased by \$141.5 million in part due to a reduction in program costs, specifically in personnel and operational costs, that needed to be implemented since revenue saw a sharp decline early in the pandemic which carried over into FY20. Capital outlay increased by \$27.1 million.

Table 9 below sets forth a condensed summary of revenues and expenditures (presented on a GAAP basis) for the Motor License Fund for fiscal years 2017 through 2021.

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

|                                                                                   | <b>Fiscal Year Ended June 30</b> |                    |                    |                    |                    |
|-----------------------------------------------------------------------------------|----------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                                                                   | <b>2017</b>                      | <b>2018</b>        | <b>2019</b>        | <b>2020</b>        | <b>2021</b>        |
| <b>Fund Balance — Beginning of Period .....</b>                                   | \$ 884,742                       | \$1,009,113        | \$1,003,959        | \$ 872,037         | \$ 595,346         |
| <b>Revenues:</b>                                                                  |                                  |                    |                    |                    |                    |
| Taxes.....                                                                        | \$3,548,156                      | \$3,811,035        | \$3,795,265        | \$3,382,948        | \$3,562,411        |
| Licenses and fees.....                                                            | 1,005,954                        | 1,033,368          | 1,015,010          | 1,075,920          | 1,114,831          |
| Intergovernmental.....                                                            | 1,895,792                        | 1,877,278          | 1,917,103          | 1,731,505          | 2,350,760          |
| Other revenues.....                                                               | 138,170                          | 122,080            | 58,393             | 73,180             | 104,618            |
| <b>Other Financing Sources:</b>                                                   |                                  |                    |                    |                    |                    |
| Operating transfers in.....                                                       | 223,349                          | 20,797             | 24,860             | 28,697             | 12,868             |
| Capital lease and installment purchase obligations                                | -                                | 749                | 57                 | 1,145              | -                  |
| Other additions.....                                                              | -                                | -                  | -                  | -                  | -                  |
| <b>TOTAL REVENUES AND OTHER SOURCES.....</b>                                      | <b>\$6,811,421</b>               | <b>\$6,865,307</b> | <b>\$7,034,588</b> | <b>\$6,293,395</b> | <b>\$7,145,488</b> |
| <b>Expenditures:</b>                                                              |                                  |                    |                    |                    |                    |
| Direction and supportive services.....                                            | \$ 38,814                        | \$ 36,218          | \$ 34,692          | \$ 36,991          | \$ 34,773          |
| Protection of persons and property.....                                           | 963,705                          | 1,028,494          | 1,021,772          | 991,348            | 963,566            |
| Health and human services.....                                                    |                                  |                    | 1                  | -                  | -                  |
| Public education.....                                                             | 252                              | 365                | 290                | 328                | 276                |
| Economic development.....                                                         | 378                              | 267                | 163                | 4,886              | 6,224              |
| Recreation and cultural enrichment.....                                           | 6,695                            | 7,225              | 5,416              | 171                | 148                |
| Transportation.....                                                               | 2,911,619                        | 2,702,039          | 2,911,380          | 2,795,235          | 2,653,646          |
| Capital outlay.....                                                               | 2,632,571                        | 2,989,777          | 2,840,569          | 2,623,360          | 2,650,500          |
| Interest and fiscal charges.....                                                  | -                                | 9                  | 18                 | 171                | 891                |
| <b>Other Uses:</b>                                                                |                                  |                    |                    |                    |                    |
| Operating transfers out.....                                                      | 133,016                          | 106,067            | 128,309            | 117,596            | 123,375            |
| <b>TOTAL EXPENDITURES AND OTHER USES</b>                                          | <b>\$6,687,050</b>               | <b>\$6,870,461</b> | <b>\$6,942,610</b> | <b>\$6,570,086</b> | <b>\$6,433,399</b> |
| <b>REVENUES AND OTHER SOURCES OVER<br/>(UNDER) EXPENDITURE AND OTHER USES....</b> | <b>124,371</b>                   | <b>(5,154)</b>     | <b>91,978</b>      | <b>(276,691)</b>   | <b>712,089</b>     |
| <b>Fund Balance — End of Period .....</b>                                         | <b>\$1,009,113</b>               | <b>\$1,003,959</b> | <b>\$1,095,939</b> | <b>\$ 595,346</b>  | <b>\$1,307,435</b> |
| <b>Components of Fund Balance</b>                                                 |                                  |                    |                    |                    |                    |
| Restricted.....                                                                   | 1,009,113                        | 1,003,959          | 872,037            | 595,346            | 1,307,435          |
| <b>TOTAL FUND BALANCE.....</b>                                                    | <b>\$1,009,113</b>               | <b>\$1,003,959</b> | <b>\$ 872,037</b>  | <b>\$ 595,346</b>  | <b>\$1,307,435</b> |

Source: Compiled from Office of the Budget, Annual Comprehensive Financial Reports for fiscal years ended June 30, 2017 through 2021.

The following budgetary basis information is derived from the Commonwealth's unaudited budgetary basis financial statement for fiscal years 2017 through 2022 and the enacted budget for fiscal year 2023 budget.

***Fiscal Year 2017 Financial Results***

*Budgetary Basis.* Commonwealth revenues to the Motor License Fund totaled \$2,758.5 million, an increase of \$101 million or 3.8 percent over fiscal year 2016 revenues. Receipts from liquid fuels taxes increased by 4.4 percent while license and fee revenue increased by 3.9 percent from the previous year. Other revenue receipts decreased by 29 percent over the previous fiscal year. Fiscal year 2017 Motor License Fund appropriations and executive authorizations totaled \$2,762.1 million, a decrease of 0.2 percent from fiscal year 2016. The Motor License Fund concluded fiscal year 2017 with an unappropriated surplus of \$73.1 million, a net increase of 82.4 percent.

***Fiscal Year 2018 Financial Results***

*Budgetary Basis.* Commonwealth revenues to the Motor License Fund totaled \$2,948.5 million, an increase of \$189 million or 6.9 percent over fiscal year 2017 revenues. Receipts from liquid fuels taxes increased by 6.6 percent while license and fee revenues increased by 4.5 percent over the previous year. Other revenue receipts increased by 122.9 percent over the previous fiscal year. Fiscal year 2018 Motor License Fund appropriations and executive authorizations totaled \$2,886.2 million, an increase of 4.5 percent over fiscal year 2017. The Motor License Fund concluded fiscal year 2018 with an unappropriated surplus of \$216.4 million, a net increase of 196.1 percent.

***Fiscal Year 2019 Financial Results***

*Budgetary Basis.* Commonwealth revenues to the Motor License Fund totaled \$2,849.2 million, a decrease of \$99.2 million or 3.5 percent over fiscal year 2018 revenues. Receipts from liquid fuels taxes decreased by 0.5 percent while license and fee revenues decreased by 5.4 percent over the previous year. Other revenue receipts decreased by 187.1 percent over the previous fiscal year. Fiscal year 2019 Motor License Fund appropriations and executive authorizations totaled \$3,066 million, an increase of 5.9 percent over fiscal year 2018. The Motor License Fund concluded fiscal year 2019 with an unappropriated surplus of \$29 million, a net decrease of \$187 million from the 2018 unappropriated surplus of \$216 million.

***Fiscal Year 2020 Financial Results***

*Budgetary Basis.* Commonwealth revenues to the Motor License Fund totaled \$2,663.3 million, a decrease of \$186.6 million or 6.5 percent over fiscal year 2019 revenues. Receipts from liquid fuels taxes decreased by 4.6 percent while license and fee revenues decreased by 5.4 percent over the previous year. Fiscal year 2020 Motor License Fund appropriations and executive authorizations totaled \$2,767.0 million, a decrease of 9.8 percent over fiscal year 2019. The Motor License Fund concluded fiscal year 2020 with a negative unappropriated balance of \$51.2 million, a net decrease of \$80.2 million from the 2019 unappropriated surplus of \$29.0 million.

***Fiscal Year 2021 Financial Results***

*Budgetary Basis.* Commonwealth revenues to the Motor License Fund totaled \$2,825.5 million, an increase of \$162 million or 6.0 percent over fiscal year 2020 revenues. Receipts from liquid fuels taxes increased by 9.1 percent while license and fee revenues increased by 16.8 percent over the previous year. Fiscal year 2021 Motor License Fund appropriations and executive authorizations totaled \$2,722.9 million, a decrease of 1.5 percent over fiscal year 2020. The Motor License Fund concluded fiscal year 2021 with an unappropriated surplus of \$115.3 million, a net increase of \$166.5 million from the 2020 negative unappropriated surplus of \$51.1 million.

***Fiscal Year 2022 Financial Results***

*Budgetary Basis.* Commonwealth revenues to the Motor License Fund totaled \$2,883.4 million, an increase of \$58 million or 2.1 percent over fiscal year 2021 revenues. Receipts from liquid fuels taxes increased by 4.8 percent while license and fee revenues decreased by 2.2 percent over the previous year. Fiscal year 2022 Motor License Fund appropriations and executive authorizations totaled \$2,706.8 million, a decrease of 0.6 percent over fiscal year 2021. The Motor License Fund concluded fiscal year 2022 with an unappropriated surplus of \$347.3 million, a net increase of \$231.9 million from the 2021 negative unappropriated surplus of \$115.4 million.

***Fiscal Year 2023 Enacted Budget***

Commonwealth revenues to the Motor License Fund are budgeted to be \$2,916.1 million, an increase of \$32.7 million or 1.1 percent from fiscal year 2022 revenues. Receipts from the liquid fuels tax are budgeted to increase 3.8 percent from the prior year, while license and fee revenues are budgeted to decrease by 2.8 percent. Additionally, other revenue receipts are budgeted to be \$7.6 million. Fiscal year 2023 Motor License Fund appropriations and executive authorizations are budgeted to equal \$3,150.9 million, an increase of 17.0 percent over fiscal year 2022 appropriations. The Motor License Fund is budgeted to conclude fiscal year 2022 with an unappropriated balance of \$112.5 million, a decrease of \$234.8 million from the fiscal year 2022 unappropriated fund balance of \$347.3 million.

**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.

***Financial Results for Fiscal Years 2017-2021***

*GAAP Basis.* During the fiscal year ending June 30, 2021, the net year-over-year increase in total revenues and other sources was \$628.2 million. Total operating revenues: Sales and services increased \$895.4 million. The increase is largely attributed to the easing of COVID-19 pandemic restrictions which resulted in record lottery sales. This fiscal year saw an increase in credit/debit sales, as well as iLottery activity.

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Table 10 sets forth a condensed summary of revenues and expenditures (presented on a GAAP basis) for the State Lottery Fund for fiscal years 2017 through 2021.

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

|                                                                           | Fiscal Year Ended June 30 |                     |                     |                     |                    |
|---------------------------------------------------------------------------|---------------------------|---------------------|---------------------|---------------------|--------------------|
|                                                                           | 2017                      | 2018                | 2019                | 2020                | 2021               |
| <b>Net Position -</b>                                                     |                           |                     |                     |                     |                    |
| <b>Beginning of Period</b> .....                                          | \$ (231,428)              | \$ (323,127)        | \$ (393,436)        | \$ (407,866)        | \$ (130,068)       |
| Restatements.....                                                         | -                         | (91,622)            |                     |                     |                    |
| <b>Net Position</b>                                                       |                           |                     |                     |                     |                    |
| <b>Beginning of Period, as Restated</b> .....                             | \$ (231,428)              | \$ (414,749)        | \$ (393,436)        | \$ (407,866)        | \$ (130,068)       |
| <b>Revenues:</b>                                                          |                           |                     |                     |                     |                    |
| Lottery revenues.....                                                     | 4,002,544                 | 4,212,974           | 4,587,499           | 4,560,904           | 5,456,344          |
| Intergovernmental.....                                                    | -                         | -                   | -                   | -                   | -                  |
| Investment income.....                                                    | 1,308                     | 2,913               | 3,598               | 2,552               | 332                |
| Other revenues.....                                                       | 3,367                     | 336                 | 2,338               | -                   | -                  |
| <b>Other Financing Sources:</b>                                           |                           |                     |                     |                     |                    |
| Operating transfers in.....                                               | 148,000                   | 145,700             | 141,700             | 265,500             | 500                |
| <b>TOTAL REVENUES AND OTHER SOURCES</b>                                   | <u>\$4,155,219</u>        | <u>\$4,361,923</u>  | <u>\$4,735,135</u>  | <u>\$4,828,956</u>  | <u>\$5,457,176</u> |
| <b>Expenditures:</b>                                                      |                           |                     |                     |                     |                    |
| Costs of sales and services.....                                          | \$3,978,049               | \$4,083,523         | \$4,485,905         | \$4,308,501         | \$5,105,989        |
| Depreciation and amortization.....                                        | 3,923                     | 4,378               | 5,324               | 6,750               | 8,986              |
| Other expenses.....                                                       | 39                        | 1,802               | 7,429               | -                   | -                  |
| <b>Other Uses:</b>                                                        |                           |                     |                     |                     |                    |
| Operating transfers out.....                                              | 264,907                   | 250,907             | 250,907             | 235,907             | 235,907            |
| <b>TOTAL EXPENDITURES AND OTHER USES</b>                                  | <u>\$4,246,918</u>        | <u>\$4,340,610</u>  | <u>\$4,749,565</u>  | <u>\$4,551,158</u>  | <u>\$5,350,882</u> |
| <b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES</b> | <u>(91,699)</u>           | <u>21,313</u>       | <u>(14,430)</u>     | <u>277,798</u>      | <u>106,294</u>     |
| <b>Net Position - End of Period</b> .....                                 | \$ (323,127)              | \$ (393,436)        | \$ (407,866)        | \$ (130,068)        | \$ (23,774)        |
| <b>Components of Net Position</b>                                         |                           |                     |                     |                     |                    |
| Invested in capital assets, net of debt.....                              | \$ 23,953                 | \$ 23,024           | \$ 31,234           | \$ 37,345           | \$ 37,797          |
| Deficit.....                                                              | (347,080)                 | (416,460)           | (439,100)           | (167,413)           | (61,571)           |
| <b>TOTAL NET POSITION</b> .....                                           | <u>\$ (323,127)</u>       | <u>\$ (393,436)</u> | <u>\$ (407,866)</u> | <u>\$ (130,068)</u> | <u>\$ (23,774)</u> |

Source: Compiled from Office of the Budget, Annual Comprehensive Financial Reports for fiscal years ended June 30, 2017 through 2021.

The following budgetary basis information is derived from the Commonwealth's unaudited budgetary basis financial statements for fiscal years 2017 through 2022 and the enacted budget for fiscal year 2023 budget.

***Fiscal Year 2017 Financial Results***

*Budgetary Basis.* Fiscal year 2017 net revenues from lottery sources, including instant ticket sales and the State's participation in the multi-state Powerball game, decreased by 10.2 percent. Total funds available, including prior year lapses and net revenues received by the Lottery Fund during fiscal year 2017, were \$1,709.2 million. Total appropriations, net of current year lapses, were \$1,852.5 million. Additionally, fiscal year 2017 expenditures included a transfer of approximately \$184.1 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 had a deficit of \$18.2 million, a decrease of 167.6 percent.

### ***Fiscal Year 2018 Financial Results***

*Budgetary Basis.* Fiscal year 2018 net revenues from lottery sources, including instant ticket sales and the state's participation in the multi-state Powerball game, increased by 4.7 percent. Total funds available, including prior year lapses and net revenues received by the Lottery Fund during fiscal year 2018, were \$1,789.4 million. Total appropriations, net of current-year lapses, were \$1,797.3 million. The fiscal year-end unappropriated balance and reserve had a surplus of \$4.2 million, an increase of 123.3 percent.

### ***Fiscal Year 2019 Financial Results***

*Budgetary Basis.* Fiscal year 2019 net revenues from lottery sources, including instant ticket sales and the state's participation in the multi-state Powerball game, increased by 8.8 percent. Total funds available, including prior year lapses and net revenues received by the Lottery Fund during fiscal year 2019, were \$1,930.6 million. Total appropriations, net of current-year lapses, were \$1,952.1 million. The fiscal year-end unappropriated balance and reserve had a surplus of \$4.2 million, an increase of 0.12 percent.

### ***Fiscal Year 2020 Financial Results***

*Budgetary Basis.* Fiscal year 2020 net revenues from lottery sources, including instant ticket sales and the state's participation in the multi-state Powerball game, decreased by 6.1 percent. Total funds available, including prior year lapses and net revenues received by the Lottery Fund during fiscal year 2020, were \$1,943.8 million. Total appropriations, net of current-year lapses, were \$2,088.1 million. The fiscal year-end unappropriated balance and reserve had a negative balance of \$119.8 million, an increase of 2,919.5 percent.

### ***Fiscal Year 2021 Financial Results***

*Budgetary Basis.* Fiscal year 2021 net revenues from lottery sources, including instant ticket sales and the state's participation in the multi-state Powerball game, increased by 3.2 percent. Total funds available, including prior year lapses and net revenues received by the Lottery Fund during fiscal year 2021, were \$1,999.7 million. Total appropriations, net of current-year lapses, were \$1,876.4 million. The fiscal year-end unappropriated balance and reserve had a balance of \$48.3 million, an increase of 140.3 percent.

### ***Fiscal Year 2022 Financial Results***

*Budgetary Basis.* Fiscal year 2022 net revenues from lottery sources, including instant ticket sales and the state's participation in the multi-state Powerball game, decreased by 6.9 percent. Total funds available, including prior year lapses and net revenues received by the Lottery Fund during fiscal year 2022, were \$2,223.3 million. Total appropriations, net of current-year lapses, were \$1,998.5 million. The fiscal year-end unappropriated balance and reserve had a balance of \$149.8 million, an increase of 209.9 percent.

### ***Fiscal Year 2023 Enacted Budget***

The enacted fiscal year 2023 budget anticipates a 2.4 percent decrease in revenues from all lottery sources, including instant-ticket sales and the State's participation in the multi-state Powerball game. Continued revenue growth is anticipated from the implementation of Act 42 of 2017, which contained extensive revisions to the Commonwealth's gaming provisions, including the implementation of new iLottery, Keno and Virtual Sports lottery products that will increase sales and profits. State Lottery Funds available, including lapses, are estimated to be \$2,131.2 million in fiscal year 2023, a decrease of 3.21 percent. Budgeted Appropriations and Executive Authorizations total \$1,977.5 million, which represents a decrease of \$21.0 million or a 1.1 percent decrease from fiscal year 2022. The fiscal year-end balance reflects a surplus of \$78.7 million, a decrease of \$71.1 million from the fiscal year 2022 ending balance.

## **COMMONWEALTH REVENUES AND EXPENDITURES**

### **Recent Receipts and Forecasts**

Table 11, on the next page, presents the Commonwealth revenue receipts, including net revenues accrued but not deposited, on a budgetary basis, for the major operating funds of the Commonwealth as actually received for fiscal years 2018 through 2022.

**Table 11**  
**Commonwealth Revenues <sup>(a)</sup>**  
**General Fund, Motor License Fund and State Lottery Fund – Unaudited**  
**Fiscal Year 2018 – Fiscal Year 2022**  
(In Millions)

|                                       | 2018               | 2019               | 2020               | 2021               | 2022               |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>General Fund</b>                   |                    |                    |                    |                    |                    |
| Tax Revenues:                         |                    |                    |                    |                    |                    |
| Sales and use .....                   | \$ 10,381.4        | \$ 11,099.6        | \$ 10,817.8        | \$ 12,834.9        | \$ 13,914.3        |
| Personal income .....                 | 13,399.0           | 14,095.5           | 12,835.0           | 16,283.4           | 18,125.7           |
| Corporate (b).....                    | 2,879.0            | 3,397.5            | 2,826.9            | 4,423.8            | 5,323.2            |
| Public utility (c).....               | 1,183.8            | 1,286.3            | 1,142.0            | 1,030.2            | 1,061.9            |
| Inheritance .....                     | 1,019.3            | 1,053.6            | 1,082.0            | 1,345.5            | 1,550.5            |
| Financial and insurance (d) .....     | 822.2              | 824.4              | 866.5              | 874.7              | 931.1              |
| Cigarette .....                       | 1,198.3            | 1,118.8            | 924.3              | 964.2              | 874.1              |
| Other Tobacco Products.....           | 119.1              | 129.9              | 127.3              | 134.9              | 149.5              |
| Realty transfer .....                 | 514.4              | 534.0              | 497.8              | 640.2              | 847.1              |
| Alcoholic beverages (e) .....         | 395.6              | 405.4              | 388.9              | 439.1              | 453.7              |
| Other .....                           | 91.4               | 111.1              | 102.3              | 208.7              | 257.0              |
| <b>TOTAL TAX REVENUES .....</b>       | <b>\$ 32,003.5</b> | <b>\$ 34,056.1</b> | <b>\$ 31,610.7</b> | <b>\$ 39,179.6</b> | <b>\$ 43,488.2</b> |
| Non-Tax Revenues:                     |                    |                    |                    |                    |                    |
| Liquor store profits .....            | \$ 185.1           | \$ 185.1           | \$ 185.1           | \$ 185.1           | \$ 185.1           |
| Licenses, fees and miscellaneous..... | 2,303.1            | 543.6              | 411.8              | 963.2              | 4,393.9            |
| Fines, penalties and interest .....   | 75.4               | 72.9               | 68.0               | 64.1               | 66.9               |
| <b>TOTAL NON-TAX REVENUES .....</b>   | <b>\$ 2,563.6</b>  | <b>\$ 801.6</b>    | <b>\$ 664.9</b>    | <b>\$ 1,212.4</b>  | <b>\$ 4,645.9</b>  |
| <b>TOTAL GENERAL FUND .....</b>       | <b>\$ 34,567.1</b> | <b>\$ 34,857.7</b> | <b>\$ 32,275.6</b> | <b>\$ 40,392.0</b> | <b>\$ 48,134.1</b> |
| <b>Motor License Fund</b>             |                    |                    |                    |                    |                    |
| Tax Revenues:                         |                    |                    |                    |                    |                    |
| Liquid fuels .....                    | \$ 828.0           | \$ 665.4           | \$ 635.1           | \$ 616.3           | \$ 645.7           |
| Fuels use .....                       | 0.0                | 0.0                | 0.0                | 0.0                | 0.0                |
| Oil company franchise .....           | 1,018.4            | 1,005.6            | 931.4              | 904.8              | 949.7              |
| Motorbus & alt fuels.....             | 148.9              | 150.9              | 141.9              | 135.3              | 151.5              |
| Minor and Repealed.....               |                    |                    | (0.2)              | (0.4)              | 0.0                |
| <b>TOTAL TAX REVENUES .....</b>       | <b>\$ 1,995.3</b>  | <b>\$ 1,821.9</b>  | <b>\$ 1,708.2</b>  | <b>\$ 1,656.0</b>  | <b>\$ 1,746.9</b>  |
| Non-Tax Revenues:                     |                    |                    |                    |                    |                    |
| Licenses and fees .....               | \$ 1,045.6         | \$ 1,008.6         | \$ 954.0           | \$ 1,151.4         | \$ 1,126.6         |
| Other and miscellaneous.....          | 56.5               | 19.4               | 1.0                | 17.9               | 9.8                |
| <b>TOTAL NON-TAX REVENUES .....</b>   | <b>\$ 1,102.1</b>  | <b>\$ 1,028.0</b>  | <b>\$ 955.0</b>    | <b>\$ 1,169.3</b>  | <b>\$ 1,136.4</b>  |
| <b>TOTAL MOTOR LICENSE FUND .....</b> | <b>\$ 3,097.4</b>  | <b>\$ 2,849.9</b>  | <b>\$ 2,663.3</b>  | <b>\$ 2,825.3</b>  | <b>\$ 2,883.3</b>  |
| <b>State Lottery Fund</b>             |                    |                    |                    |                    |                    |
| Non-Tax Revenues:                     |                    |                    |                    |                    |                    |
| Lottery revenues .....                | \$ 1,641.0         | \$ 1,785.4         | \$ 1,676.0         | \$ 2,006.2         | \$ 1,967.5         |
| Other and miscellaneous .....         | 148.4              | 145.2              | 267.9              | (6.4)              | 255.8              |
| <b>TOTAL NON-TAX REVENUES .....</b>   | <b>\$ 1,789.4</b>  | <b>\$ 1,930.6</b>  | <b>\$ 1,943.8</b>  | <b>\$ 1,999.8</b>  | <b>\$ 2,223.3</b>  |
| <b>TOTAL STATE LOTTERY FUND .....</b> | <b>\$ 1,789.4</b>  | <b>\$ 1,930.6</b>  | <b>\$ 1,943.8</b>  | <b>\$ 1,999.8</b>  | <b>\$ 2,223.3</b>  |

Source: Office of the Budget. Totals may not add due to rounding.

<sup>(a)</sup> Budgetary basis including taxes and interest accrued but not deposited by the Commonwealth by June 30 of each fiscal year.

<sup>(b)</sup> Includes the corporate net income and the capital stock and franchise taxes.

<sup>(c)</sup> Includes the utility gross receipts and utility property tax.

<sup>(d)</sup> Includes the financial institution and insurance premium taxes.

<sup>(e)</sup> Includes the liquor and malt beverage taxes.

Table 12, on the next page, presents a comparison of the actual revenues on a budgetary basis to the official revenue estimate used for budget enactment for the General Fund and the Motor License Fund for fiscal years 2018 through 2022.

**Table 12**  
**Commonwealth Revenues – Official Estimate vs. Actual <sup>(a)</sup>**  
**General Fund and Motor License Fund – Unaudited**  
**Fiscal Year 2018 – Fiscal Year 2022**  
(In Millions)

| Fiscal Year<br>Ended June 30 | General Fund                        |            |           | Motor License Fund                  |           |          |
|------------------------------|-------------------------------------|------------|-----------|-------------------------------------|-----------|----------|
|                              | Official<br>Estimate <sup>(b)</sup> | Actual     | Variance  | Official<br>Estimate <sup>(b)</sup> | Actual    | Variance |
| 2018                         | \$34,704.1                          | \$34,566.9 | (\$137.2) | \$2,948.5                           | \$2,896.5 | (\$52.0) |
| 2019                         | 33,974.8                            | 34,857.9   | 883.1     | 2,907.2                             | 2,849.3   | (57.9)   |
| 2020                         | 35,496.8                            | 32,275.8   | (3,221.0) | 2,849.9                             | 2,663.5   | (186.4)  |
| 2021                         | 36,954.7                            | 40,392.0   | 3,437.3   | 2,806.1                             | 2,825.6   | 19.5     |
| 2022                         | 42,536.2                            | 48,134.2   | 5,598.0   | 2,846.0                             | 2,883.4   | 37.4     |

Source: Office of the Budget.

<sup>(a)</sup> Budgetary basis including taxes and interest accrued but not deposited by the Commonwealth by June 30 of each fiscal year.

<sup>(b)</sup> As certified for budget enactment.

### Tax Revenues (Unaudited Budgetary Basis)

#### General Fund

Tax revenues constituted approximately 90.3 percent of Commonwealth revenues in the General Fund for the fiscal year ended June 30, 2022 (hereafter, fiscal year 2022). The major tax sources for the General Fund of the Commonwealth are shown in the following table:

| TAX TYPE             | COLLECTIONS<br>(\$M) |
|----------------------|----------------------|
| Sales and Use        | 13,914.3             |
| Personal Income      | 18,125.7             |
| Corporate Net Income | 5,323.1              |
| Gross Receipts       | 1,022.4              |
| Inheritance          | 1,550.4              |

Together, these five taxes produced 91.8 percent of General Fund tax revenues for the fiscal year 2022.

#### Motor License Fund

The major tax source for the Motor License Fund is the Oil Company Franchise Tax, which produced 55.3 percent of non-restricted Motor License Fund revenues in fiscal year 2022. 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 discussions of the tax revenues of the Motor License Fund.

#### General Fund Revenue Detail

The major revenue sources (those representing more than 1% of total revenues) for the General Fund are described briefly below. For additional information, please refer to the Tax Compendium on the Pennsylvania Department of Revenue's website (<https://www.revenue.pa.gov/GeneralTaxInformation/News%20and%20Statistics/ReportsStats/TaxCompendium/Pages/default.aspx>). The receipt amounts in the descriptions are on a budgetary basis.

#### Corporate Net Income Tax

\$5,323.1 million in fiscal year 2022 (11.1 percent of total General Fund revenues)

This tax is paid by all domestic and foreign business corporations for the privilege of doing business, carrying on activities, or employing or owning capital or property in Pennsylvania and is levied on Federal taxable income with

Pennsylvania modifications. When the entire business of any corporation is not transacted within Pennsylvania, taxable income is usually determined by a single sales factor apportionment formula for tax years 2013 and beyond.

The current tax rate of 9.99% has been in effect since January 1, 1995. The rate will drop to 8.99% on January 1, 2023 and decrease thereafter until the rate is 4.99% in 2031.

### **Gross Receipts Tax**

\$1,022.4 million in fiscal year 2022 (2.1 percent of total General Fund revenues)

This tax is levied on the gross receipts from business transacted within Pennsylvania by specified companies owned, operated or leased by corporations, associations, or individuals. Various gross receipts taxes are imposed upon private bankers; pipeline, conduit, steamboat, canal, slack water navigation and transportation companies; telephone, telegraph and mobile telecommunications companies; electric light, water power and hydroelectric companies; express companies; palace car and sleeping car companies; and freight and oil transportation companies.

The current tax rate on gross receipts from sales of electric energy within Pennsylvania is 59 mills and has been in effect since 2003. The current tax rate on other gross receipts is 50 mills and has been in effect since 1991.

### **Insurance Premiums Tax**

\$482.3 million in fiscal year 2022 (1.0 percent of total General Fund revenues)

This tax is levied on the gross premiums from all business transacted within the Commonwealth during each calendar year by domestic and foreign insurance companies.

The current tax rate is 2 percent of gross premiums plus a retaliatory fee where applicable.

### **Sales & Use Tax**

\$13,914.3 million in fiscal year 2022 (28.9 percent of total General Fund revenues)

This tax is levied on the sale at retail, including rental, of tangible personal property and certain services, or upon the use with Pennsylvania of tangible personal property, or taxable services purchased at retail if the tax was not paid at time of purchase. A tax on the occupancy of hotel rooms is imposed as part of the sales and use tax law.

Listed below are the transfers made from Sales and Use Tax in fiscal year 2022 (figures shown above are net of these transfers):

- Commonwealth Financing Authority – \$164.1 million
- Public Transportation Assistance Fund – \$140.7 million (0.947% of gross collections)
- Public Transportation Trust Fund – \$653.6 million (4.4% of gross collections)
- Transit Revitalization Investment District Fund - \$0.7 million

The current tax rate uses a bracket system based on 6 percent of purchase price. This rate has been in effect since 1968.

### **Cigarette Tax**

\$874.1 million in fiscal year 2022 (1.8 percent of total General Fund revenues)

This tax is imposed and assessed on the sale or possession of cigarettes and little cigars weighting less than 4 pounds per 1,000 sticks within Pennsylvania.

Listed below are the transfers made from Cigarette Tax in fiscal year 2022 (figures shown above are net of these transfers):

- Agricultural Conservation Easement Purchase Fund - \$25.5 million
- Children's Health Insurance Program - \$30.7 million
- Tobacco Debt Service - \$115.3 million
- Local Cigarette Tax Fund –\$28.3 million. If collections from the additional Philadelphia Cigarette Tax (\$0.10 per cigarette) fall below \$58.0 million in a fiscal year, a transfer is made from the General Fund to the Local Cigarette Tax Fund to make up the difference.

The current tax rate of \$0.13 per cigarette has been in effect since August 2016.

### **Personal Income Tax**

\$18,125.7 million in fiscal year 2022 (37.7 percent of total General Fund revenues)

The tax is paid by all residents, resident trusts and estates on eight separate classes of income:

- Compensation
- Net profits
- Interest
- Dividends
- Income from the disposition of property
- Rents and royalties
- Gambling and lottery winnings, including cash prizes of the Pennsylvania Lottery
- Income from estates and trusts.

The tax is also paid by non-resident individuals, estates and trusts on the following income from sources within the Commonwealth:

- Compensation for personal services performed in Pennsylvania unless the taxpayer is a resident of a state with which there is a reciprocal agreement
- Net profits from activity conducted in Pennsylvania
- Income from the rental, ownership or disposition of any real or personal property
- Income from gambling activity in Pennsylvania including cash prizes of the Pennsylvania Lottery.

A loss in one class of income may not be offset against income in another class, nor may gains or losses be carried back or forward from year to year. A credit is available to those individuals receiving tax forgiveness under the special provisions for poverty.

The following transfers were made from Personal Income Tax in fiscal year 2022:

- Environmental Stewardship Fund - \$12.3 million
- Farm Show Complex restricted account - \$13.3 million

The current tax rate of 3.07% has been in effect since 2004.

### **Realty Transfer Tax**

\$847.1 million in fiscal year 2022 (1.8 percent of total General Fund revenues)

The tax is levied on the value of the real estate transferred by a deed, instrument, or other writing. Other taxable transfers include long-term leases greater than 30 years, transfers of real estate from industrial development authorities that will not be used primarily for industrial purposes, and “deemed” transfers of real estate because of the acquisition of companies which are not in the business of holding or selling real estate.

The following transfers were made from Realty Transfer Tax in fiscal year 2022:

- Keystone Recreation, Park, and Conservation Fund – \$154.2 million (15% of gross collections)
- Pennsylvania Housing Affordability and Rehabilitation Enhancement Fund - \$40.0 million. This transfer is to be the lesser of \$40 million or 40 percent of the difference between the total dollar amount of the realty transfer tax collected in the prior fiscal year and the total dollar amount of the realty transfer tax official estimate for fiscal year 2015 (\$447.5 million).

The current tax rate for the Pennsylvania share of the Realty Transfer Tax is 1% of the actual consideration or price of the property represented in the deed. Pennsylvania realty transfer tax is collected, often along with an additional local realty transfer tax, by county Recorders of Deeds. The Recorders of Deeds remit the Commonwealth's 1 percent to the Department of Revenue, and the locals have the option to share their realty transfer tax among school districts and municipalities.

### **Inheritance Tax**

\$1,550.4 million in fiscal year 2022 (3.2 percent of total General Fund revenues)

This tax is imposed on the value of property transferred to beneficiaries of a deceased person and certain transfers made during the decedent’s lifetime. The value of the transfer is established on the date of the decedent’s death.

Rates are based on the relationship of the decedent and the beneficiary. Transfers of non-jointly held property to spouses are taxed at a rate of 0 percent. Transfers to parents of decedents 21 years of age or younger are taxed at a

rate of 0 percent. Transfers to decedents 21 years of age or younger from their parents are taxed at a rate of 0 percent (effective January 1, 2020). Transfers to other lineal beneficiaries are taxed at 4.5 percent. Transfers to siblings of the decedents are subject to a 12 percent tax rate. Transfers to all other beneficiaries are taxed at 15 percent.

### **Non-Tax Revenues**

\$4,645.6 million in fiscal year 2022 (9.7 percent of total General Fund revenues)

This category is made up of the following major components:

- Liquor Store Profits
- Licenses and Fees
- Miscellaneous Non-Tax Revenues
- Fines, Penalties, and Interest

### **Motor License Fund Revenue Detail**

The major tax sources (those representing more than 1% of total non-restricted revenues) for the Motor License Fund are described briefly below. For additional information, please refer to the Tax Compendium on the Pennsylvania Department of Revenue's website (<https://www.revenue.pa.gov/GeneralTaxInformation/News%20and%20Statistics/ReportsStats/TaxCompendium/Pages/default.aspx>). The tax receipt amounts in the descriptions are on a budgetary basis.

#### **Motor Carriers Road Tax / IFTA**

\$136.1 million in fiscal year 2022 (4.7 percent of total non-restricted Motor License Fund revenues)

The Motor Carriers Road Tax/IFTA is imposed on fuel consumed by qualified motor vehicles operated within Pennsylvania. Qualified motor vehicles operated exclusively in Pennsylvania are subject to fuel taxation under the Motor Carriers Road Tax. Credit is granted for tax paid on fuel purchases.

The tax rate is equivalent to the rate per gallon currently in effect on liquid fuels, fuels, or alternative fuels.

Annual decal fees indicating vehicle registration in Pennsylvania are also included in these taxes. The cost is \$12 per vehicle per calendar year. The decals must be displayed on both sides of each qualified vehicle operated in Pennsylvania.

#### **Oil Company Franchise Tax**

\$1,595.4 million in fiscal year 2020 (55.3 percent of total non-restricted Motor License Fund revenues)

The oil company franchise tax is imposed on all taxable liquid fuels and fuels on a cents-per-gallon equivalent basis, and it is remitted by distributors of liquid fuels and fuels.

The following are exempt from the tax:

- fuels sold and delivered to the U.S. government, the Commonwealth, and any of its political subdivisions; volunteer fire companies
- volunteer ambulance services and volunteer rescue squads
- second class county port authorities
- nonpublic, nonprofit schools (K-12)

In addition to these exemptions, reimbursements are made for certain agricultural purposes and for fuel consumed in truck-mounted refrigerator units.

The following table shows the tax rates in effect for calendar year 2022:

|                                           |                |
|-------------------------------------------|----------------|
| Aviation gasoline                         | \$0.055/gallon |
| Jet fuel                                  | \$0.015/gallon |
| Liquid fuels (motor gasoline and gasohol) | \$0.576/gallon |
| Fuels (undyed diesel and undyed kerosene) | \$0.741/gallon |

#### **Licenses and Fees**

\$1,126.6 million in fiscal year 2022 (39.1 percent of total non-restricted Motor License Fund revenues)

This category is made up of the following major components:

- Special Hauling Permits
- Pennsylvania’s share of registration fees from other states
- Operator’s Licenses
- Vehicle Registration and Titling

## **Federal Revenues**

Receipts by the Commonwealth in its General Fund, Motor License Fund and Tobacco Settlement Fund from the federal government during fiscal year 2021 totaled \$51,398 million and during fiscal year 2022 totaled \$57,964 million. Anticipated receipts from the federal government included in the fiscal year 2023 enacted budget is \$44,070 million. Approximately \$31,072 million, or 60.4 percent, of total federal revenue to the Commonwealth for fiscal year 2021 was attributed 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 2022, \$39,145 million, or 67.5 percent, of federal revenues were attributed to these types of programs. In the fiscal year 2023 enacted budget, approximately \$34,511 million or 78.3 percent of federal revenues are expected to be attributable to public health and welfare programs.

## **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 2021 and fiscal year 2022 and the enacted budget for fiscal year 2023.

### ***Education***

In fiscal year 2021, expenditures from Commonwealth revenues for education purposes were more than \$14,757 million. In fiscal year 2022, expenditures from Commonwealth revenues for education purposes were more than 15,333 million. The enacted budget for fiscal year 2023 includes over \$17,061 million in education funding, an increase of approximately 11.27 percent over fiscal year 2022.

*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 2023 increases the State Basic Education subsidy by \$525 million, including the Level-Up Supplement, to \$7,080 million. The basic education funding appropriation includes over \$545 million appropriated as School Employees’ Social Security, which must be used for School Employees’ Social Security payments to school districts, as well as the \$7,080 million subsidy that includes the Level-Up Supplement. The total basic education appropriation is over \$7,625 million. The education funding is distributed to school districts, based on local wealth, existing tax burden, district size and certain student characteristics.

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

Total Commonwealth expenditures for basic education programs in fiscal year 2021 were more than \$12,861 million, representing 87.15 percent of all Commonwealth expenditures for education in fiscal year 2021. Total Commonwealth expenditures for basic education programs in fiscal year 2022 are more than \$13,428 million, representing 87.57 percent of all Commonwealth expenditures for education in fiscal year 2022. The enacted budget for fiscal year 2023 includes more than \$15,001 million for basic education programs.

**Table 13**  
**Fall Enrollment in Pennsylvania Public and**  
**Non-Public Elementary Schools and Secondary Schools**  
**School Years 2018-2022**  
(In Thousands)

|                           | <b>School Year Ended June 30</b> |             |             |             |             |
|---------------------------|----------------------------------|-------------|-------------|-------------|-------------|
|                           | <u>2018</u>                      | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
| <b>Elementary Schools</b> |                                  |             |             |             |             |
| Public.....               | 913                              | 913         | 910         | 877         | 874         |
| Nonpublic .....           | 152                              | 148         | 147         | 142         | 148         |
| <b>Secondary Schools</b>  |                                  |             |             |             |             |
| Public.....               | 806                              | 810         | 815         | 819         | 816         |
| Nonpublic .....           | 71                               | 68          | 64          | 72          | 73          |
| <b>Total</b>              |                                  |             |             |             |             |
| Public.....               | 1,719                            | 1,723       | 1,725       | 1,696       | 1,690       |
| Nonpublic .....           | <u>223</u>                       | <u>216</u>  | <u>211</u>  | <u>214</u>  | <u>221</u>  |
| Total .....               | 1,942                            | 1,939       | 1,936       | 1,910       | 1,911       |

Source: Pennsylvania Department of Education.

*Higher Education.* Higher education in Pennsylvania is provided through 215 degree-granting institutions, which include the ten 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, established by statute in 1983 from the fourteen State-owned colleges, is administered by a 20-member Board of Governors, of which 11 members are appointed by the Governor and confirmed by the Senate. Over \$1,799 million was expended by the Commonwealth in the 2021 fiscal year for these institutions and student financial assistance. Over \$1,804 million was expended by the Commonwealth in the 2022 fiscal year for these institutions and student financial assistance. The enacted budget for fiscal year 2023 includes over \$1,941 million for higher education.

**Table 14**  
**Full-Time Equivalent Enrollment at State-Supported**  
**Institutions of Higher Education**  
**School Years 2017-2021**  
(In Thousands)

|                                   | <b>School Year Ended June 30</b> |             |             |             |             |
|-----------------------------------|----------------------------------|-------------|-------------|-------------|-------------|
|                                   | <u>2017</u>                      | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> |
| State System of Higher Education. | 97                               | 90          | 88          | 88          | 79          |
| State-Related Universities .....  | 170                              | 170         | 160         | 161         | 156         |
| Community Colleges .....          | <u>83</u>                        | <u>77</u>   | <u>76</u>   | <u>70</u>   | <u>67</u>   |
| Total.....                        | 350                              | 337         | 324         | 319         | 302         |

Source: Pennsylvania Department of Education.

***Public Health and Human Services***

Fiscal year 2022 public health and human services expenditures were \$56,785 million (budgetary basis) and are projected to be \$57,941 million in fiscal year 2023. With regards to fiscal year 2022 expenditures, nearly \$15,240 million was funded from the General Fund, while \$18,317 million is estimated to be provided from the General Fund for fiscal year 2023. Federal funds are expected to decrease by \$2,012 million and augmentations are expected to decrease by \$37 million for fiscal year 2023. Public health and human service programs are the largest single component of combined State and federal spending in the Commonwealth's operating budget. The overall budget

increase reflects the impact of caseload increases, federal mandates, litigation, and continued support of county operated programs for child welfare, mental health, and intellectual disabilities.

The fiscal year 2023 budget includes \$365 million of receipts from the Tobacco Settlement Fund to be expended for health care related programs. Federal funds matching the State Tobacco Master Settlement Agreement (MSA) funds are also expected to be provided. However, 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 a 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. In June 2018, a settlement was reached with various tobacco companies resolving 20 years of disputes and future disputes related to the non-participating manufacturer adjustment. The settlement resulted in a payment of which \$372 million was used to offset health care related costs in fiscal year 2022.

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 \$11,593 million in fiscal year 2022, while \$14,292 million is budgeted from the General Fund for fiscal year 2023. In addition, a nursing home assessment fee provided a General Fund offset (meaning a reduction in required General Fund appropriations) of \$162 million in fiscal year 2022 and is expected to provide a \$162 million offset in fiscal year 2023. A Managed Care Organization assessment provided a General Fund offset of \$1,335 million in fiscal year 2022 and in fiscal year 2023 the offset is projected at \$1,343 million. Also, a Statewide Quality Care assessment provided a \$300 million offset in fiscal year 2022 and is expected to provide a \$300 million offset in fiscal year 2023. In 2023, approximately 31.61 percent of the total cost of assistance to the economically needy is proposed to be supported by Commonwealth funds appropriated from the General Fund. The balance is expected to be provided from reimbursements by the federal government and through various program collection activities conducted by the Commonwealth.

Medical assistance, including long-term living home and community-living programs and the intellectual disability waiver program, continues to be a growing component of public health and human services expenditures. Despite implementation of Commonwealth initiatives to restrain costs, the program continues to grow due to expanding caseloads, technology improvements and general medical cost inflation. Expenditures for medical assistance increased during the period from fiscal years 2012 through 2022 by an average annual rate of 6.79 percent. Fiscal year 2022 expenditures from Commonwealth funds were \$11,502 million (budgetary basis) are projected to be \$14,151 million in fiscal year 2023, an increase of 23 percent from the prior fiscal year. Income maintenance cash assistance payments to families in transition to independence were \$863 million for fiscal year 2022, of which \$124 million was from the General Fund. The enacted budget for fiscal year 2023 includes a total of \$932 million, for such purpose with \$124 million provided from the General Fund.

### ***Transportation***

The Commonwealth is responsible for the construction, restoration and maintenance of the highways and bridges in the 40,000-mile State highway system, including certain city streets that are a part of the State highway system. Assistance for the maintenance and construction of local roads and bridges is provided to municipalities through grants of financial aid. Highway maintenance costs, construction costs and assistance grants are paid from the Motor License Fund. Other special funds, including the Public Transportation Assistance Fund, the Public Transportation Trust Fund, the Multimodal Transportation Fund and the State Lottery Fund provide funding for mass transit and other modes of transportation.

Act 89 of 2013 provided dedicated additional funding for highways and bridges through the incremental uncapping of the Oil Company Franchise Tax (OCFT) and the indexing of vehicle and driver services fees. Act 89 also restructured Act 44 of 2007 Pennsylvania Turnpike Commission payment distributions.

In addition to its unrestricted State funds, the Motor License Fund includes five restricted revenue accounts funded by State revenues legislatively dedicated to these 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 2021 was \$2,484 million (budgetary basis). The funding was increased to \$2,752 million (budgetary basis) in fiscal year 2022. The enacted 2023 budget reflects an increase to \$3,161 million (budgetary basis). Support of highway and bridge expenditures by

local governments through grants paid from the Motor License Fund and restricted revenues was \$589 million in fiscal year 2021 and \$618 million in fiscal year 2022. The enacted fiscal year 2023 budget for grants to local governments increased to \$672 million.

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

In fiscal year 2008, the funding mechanisms for mass transit in the Commonwealth were changed with the enactment of Act 44. Mass transit funding was shifted from the General Fund to a combination of sources of revenue primarily going into a Public Transportation Trust Fund established by Act 44. The Public Transportation Trust Fund was created to provide a long-term, predictable and growing source of revenues for public transportation systems. Act 89 increased funding and revenue sources for the Public Transportation Trust Fund. Revenues are provided by scheduled payments by the Pennsylvania Turnpike Commission, a portion of the Sales and Use Tax, certain motor vehicle fees, vehicle code fines and surcharges, and transfers from the Public Transportation Assistance Fund and the Lottery Fund. 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 2021, Commonwealth funding available for mass transit was \$2,362 million (budgetary basis). Funding for mass transit was increased in fiscal year 2022 to \$2,394 million (budgetary basis). The enacted fiscal year 2023 budget for mass transit was increased to \$2,604 million.

Act 89 created the Multimodal Transportation Fund to provide additional funding for freight and passenger rail, ports, aviation, bicycle and pedestrian facilities, and other modes of transportation. Revenues deposited into the Multimodal Transportation Fund include payments from the Pennsylvania Turnpike Commission, a portion of certain motor vehicle fees and a portion of the Oil Company Franchise Tax. For fiscal year 2021, Commonwealth funding available for multimodal transportation was \$152 million (budgetary basis). The fiscal year 2022 funding was \$139 million (budgetary basis), and the enacted budget for fiscal year 2023 is \$148 million.

The Commonwealth's current aviation program funds the development of public airport facilities through grants providing for airport development, runway rehabilitation, and real estate tax rebates for public use airports. Taxes levied on aviation and jet fuel provide revenues for a restricted account for aviation programs in the Motor License Fund. In fiscal year 2021, \$11 million was expended from aviation restricted accounts. For fiscal year 2022 funding was \$12 million and the enacted budget for fiscal year 2023 is \$9 million.

Taxes on motor fuels provides approximately 63 percent of total non-restricted Motor License Fund revenues annually. COVID-19 significantly impacted both non-restricted and restricted Motor License Fund revenues. This result was a 2020-21 budget well below previous levels for Pennsylvania's highway and bridge infrastructure system. These revenue shortfalls primarily impacted the construction program. Federal transportation relief funding of \$407 million along with better fund revenues and the enactment of \$279 million from federal American Rescue Plan Act State Fiscal Relief funds, allowed calendar year 2021 and 2022 to rebound. The recent passage of the federal Infrastructure Investment and Jobs Act (IIJA) will afford the opportunity to further increase construction spending by an additional \$705 million in 2023 and for the next several calendar years. However, while Motor License Fund revenues are projected to surpass pre-pandemic levels for the available, budget, and planning years, additional state funds for construction will be necessary to meet the overall infrastructure needs of the Commonwealth.

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

## **OUTSTANDING INDEBTEDNESS OF THE COMMONWEALTH**

### **General**

Article VIII, Section 7(a) of 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 the Constitutional Debt Limit, and (iv) tax anticipation notes payable in the fiscal year of

issuance. All debt, except debt incurred through the issuance of tax anticipation notes, must be amortized in substantial and regular amounts.

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<sup>(a)</sup>**  
**Fiscal Years 2013-2022**  
(In Millions)

| <u>At June 30</u> | <u>General Obligation<br/>Debt Outstanding</u> |
|-------------------|------------------------------------------------|
| 2013.....         | \$10,860.3                                     |
| 2014.....         | 11,408.9                                       |
| 2015.....         | 12,074.8                                       |
| 2016.....         | 11,578.5                                       |
| 2017.....         | 12,009.0                                       |
| 2018.....         | 12,455.4                                       |
| 2019.....         | 11,559.0                                       |
| 2020.....         | 10,750.3                                       |
| 2021.....         | 10,939.4                                       |
| 2022.....         | 10,084.7                                       |

<sup>(a)</sup> Net of sinking fund balances.

Net outstanding general obligation debt totaled \$10,084.7 million at June 30, 2022, an decrease of \$854.7 million over June 30, 2021. Over the 10-year period ending June 30, 2022, total net outstanding general obligation debt decreased at an annual rate of 0.6 percent. Over the 5-year period ending June 30, 2021, total net outstanding general obligation debt has decreased at an annual rate of 3.4 percent.

General obligation debt for non-highway purposes of \$9,179.5 million was outstanding on June 30, 2022. Outstanding debt for these purposes decreased by a net \$792.3 million since June 30, 2021. For the period ending June 30, 2022, the 10-year and 5-year average annual compound growth rate for total outstanding debt for non-highway purposes has been -0.9 percent and -03.3 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 \$905.2 million on June 30, 2022, a decrease of \$62.4 million from June 30, 2021. Highway outstanding general obligation debt grew over the 10-year and 5-year periods ending June 30, 2022, at the annual average rates of 3.5 percent and -4.7 percent, respectively. A previous decline in outstanding highway debt was due to the policy that began in 1980 of funding highway capital projects with current revenues, except for very limited exceptions. However, beginning with fiscal year 2009, 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 such debt issuance was 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 to jumpstart its bridge rehabilitation program. During fiscal years 2011, 2012, 2013 and 2014 the Commonwealth issued \$130 million, \$120 million, \$85 million and \$40 million, respectively, in general obligation debt for the bridge rehabilitation program.

Table 16, on the following page, shows selected debt ratios for the Commonwealth for fiscal year 2012 and for fiscal years 2017 through 2021. Table 16 contains corrections to certain prior fiscal year data as well as a revision in the methodology to have debt service payments include funding from all sources rather than show debt service solely 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 2012 and 2017 through 2021**  
**(In Millions)**

|                                                                                              | 2012             | 2017             | 2018             | 2019             | 2020             | 2021             |
|----------------------------------------------------------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Net Outstanding Debt (Millions)                                                              |                  |                  |                  |                  |                  |                  |
| General Obligation Debt(a).....                                                              | \$ 10,728        | \$ 12,009        | \$ 12,455        | \$ 11,559        | \$ 10,750        | \$ 10,939        |
| Lease Payment Obligations(b).....                                                            | 2,249            | 2,981            | 3,289            | 3,428            | 3,710            | 3,586            |
| Total.....                                                                                   | <u>\$ 12,977</u> | <u>\$ 14,990</u> | <u>\$ 15,744</u> | <u>\$ 14,987</u> | <u>\$ 14,460</u> | <u>\$ 14,525</u> |
| % Increase (Decrease) over prior year.....                                                   | 7.4%             | 7.9%             | 5.0%             | -4.8%            | -3.5%            | 0.5%             |
| Population (Thousands)                                                                       |                  |                  |                  |                  |                  |                  |
| Population.....                                                                              | 12,772           | 12,788           | 12,807           | 12,802           | 12,783           | 12,802           |
| Per Capita Debt.....                                                                         | \$ 1,016         | \$ 1,172         | \$ 1,229         | \$ 1,171         | \$ 1,131         | \$ 1,135         |
| Personal Income (Millions).....                                                              | \$ 586,000       | \$ 679,731       | \$ 720,073       | \$ 752,430       | \$ 792,641       | \$ 752,430       |
| Debt as a % of Personal Income.....                                                          | 2.2%             | 2.2%             | 2.2%             | 2.0%             | 1.8%             | 1.9%             |
| Debt Service (Millions)(c)                                                                   |                  |                  |                  |                  |                  |                  |
| Highway Bonds(d).....                                                                        | \$ 57            | \$ 49            | \$ 48            | \$ 51            | \$ 57            | \$ 51            |
| All Other Bonds.....                                                                         | 1,146            | 1,221            | 1,174            | 1,251            | 1,274            | 1,251            |
| Lease Payments.....                                                                          | 139              | 159              | 161              | 160              | 165              | 178              |
| Total.....                                                                                   | <u>\$ 1,342</u>  | <u>\$ 1,429</u>  | <u>\$ 1,383</u>  | <u>\$ 1,462</u>  | <u>\$ 1,496</u>  | <u>\$ 1,480</u>  |
| Increase (Decrease) Over Prior Year                                                          | 3.1%             | (1.8%)           | (3.2%)           | 5.7%             | 2.3%             | (1.1%)           |
| Cash Revenues (Millions)(e)                                                                  |                  |                  |                  |                  |                  |                  |
| Motor License Fund.....                                                                      | \$ 2,414         | \$ 2,758         | \$ 2,897         | \$ 2,849         | \$ 2,633         | \$ 2,849         |
| General Fund.....                                                                            | 27,678           | 31,669           | 34,567           | 33,975           | 32,276           | 33,975           |
| Total.....                                                                                   | <u>\$ 30,092</u> | <u>\$ 34,427</u> | <u>\$ 37,464</u> | <u>\$ 36,824</u> | <u>\$ 34,909</u> | <u>\$ 36,824</u> |
| % Increase (Decrease) over prior year.....                                                   | 0.3%             | 2.6%             | 8.8%             | (1.7%)           | (5.2%)           | 5.5%             |
| Highway Bond Debt Service as a % of Motor License Fund Revenues.....                         | 2.4%             | 1.8%             | 1.7%             | 1.8%             | 2.2%             | 1.8%             |
| All Other Bond Debt Service and Lease Payments as % of General Fund Revenues.....            | 4.6%             | 4.4%             | 3.9%             | 4.2%             | 4.5%             | 4.2%             |
| Total Debt Service and Lease Payments as a % of Motor License and General Fund Revenues..... | 4.5%             | 4.2%             | 3.7%             | 4.0%             | 4.3%             | 4.0%             |

Prior fiscal year debt ratios can be found in previous Official Statements under Investor Information at [www.budget.pa.gov](http://www.budget.pa.gov).

(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 and Highway Bridge Improvement Bonds.

(e) Commonwealth revenues only.

Population and personal income numbers based upon calendar year-end data.

**[INTENTIONALLY LEFT BLANK]**

## General Obligation Debt Outstanding

As of June 30, 2022, the Commonwealth had the following amount of general obligation debt outstanding:

**Table 17**  
**General Obligation Debt Outstanding as of June 30, 2022**  
(In Thousands)

|                                                        | Debt<br>Outstanding  | Less:<br>Refunding<br>Escrow <sup>(a)</sup> | Less: Sinking<br>Funds <sup>(b)</sup> | Net Debt<br>Outstanding |
|--------------------------------------------------------|----------------------|---------------------------------------------|---------------------------------------|-------------------------|
| <b>Capital Projects Debt:</b>                          |                      |                                             |                                       |                         |
| Capital Facilities Bonds.....                          | \$ 5,726,544         | \$ (249,650)                                | \$ (4,298)                            | \$ 5,472,596            |
| Highway Bonds.....                                     | 563,125              | (22,430)                                    | -                                     | 540,695                 |
| Refunding Bonds.....                                   | 3,280,290            | -                                           | -                                     | 3,280,290               |
| <b>Total Capital Projects Debt Outstanding.....</b>    | <b>\$ 9,569,959</b>  | <b>\$ (272,080)</b>                         | <b>\$ (4,298)</b>                     | <b>\$ 9,293,581</b>     |
| <b>Electorate Approved Debt:</b>                       |                      |                                             |                                       |                         |
| PA Economic Revitalization Bonds.....                  | -                    | -                                           | -                                     | -                       |
| Land & Water Development Bonds.....                    | -                    | -                                           | -                                     | -                       |
| Nursing Home Loan Development Bonds.....               | -                    | -                                           | -                                     | -                       |
| Volunteer Companies' Loan Bonds.....                   | -                    | -                                           | -                                     | -                       |
| Vietnam Veterans Compensation Bonds.....               | -                    | -                                           | -                                     | -                       |
| Water Facilities Restoration-1981 Referendum.....      | -                    | -                                           | -                                     | -                       |
| Pennvest—1988 Referendum Bonds.....                    | -                    | -                                           | -                                     | -                       |
| Pennvest—1992 Referendum Bonds.....                    | 61,230               | (19,920)                                    | (13,339)                              | 27,971                  |
| Agricultural Conservation Easement Bonds.....          | -                    | -                                           | -                                     | -                       |
| Local Criminal Justice Bonds.....                      | -                    | -                                           | -                                     | -                       |
| Keystone Recreation, Parks & Conservation Bonds.....   | -                    | -                                           | -                                     | -                       |
| Growing Greener Bonds.....                             | 115,547              | (8,850)                                     | (6)                                   | 106,691                 |
| Water Supply and Wastewater Treatment Bonds.....       | 29,765               | (6,050)                                     | -                                     | 23,715                  |
| Persian Gulf Conflict Veterans.....                    | -                    | -                                           | -                                     | -                       |
| Water and Sewer Assistance.....                        | 46,000               | (4,420)                                     | (530)                                 | 41,050                  |
| <b>Total Electorate Approved Debt Outstanding.....</b> | <b>\$ 252,542</b>    | <b>\$ (39,240)</b>                          | <b>\$ (13,875)</b>                    | <b>\$ 199,427</b>       |
| <b>Other Bonded Debt:</b>                              |                      |                                             |                                       |                         |
| Disaster Relief Bonds.....                             | -                    | -                                           | -                                     | -                       |
| Refunding Bonds.....                                   | 591,665              | -                                           | -                                     | 591,665                 |
| <b>Total Other Bonded Debt Outstanding.....</b>        | <b>\$ 591,665</b>    | <b>-</b>                                    | <b>-</b>                              | <b>\$ 591,665</b>       |
| <b>Total General Obligation Debt Outstanding.....</b>  | <b>\$ 10,414,166</b> | <b>\$ (311,320)</b>                         | <b>\$ (18,173)</b>                    | <b>\$ 10,084,673</b>    |

<sup>(a)</sup> Principal amount of bonds refunded to be paid from escrowed bond proceeds in State Treasurer escrow account.

<sup>(b)</sup> Funds already deposited in sinking funds.

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Debt service payable during each fiscal year on outstanding general obligation debt, net of refunding escrow amounts, as of June 30, 2022, for the years shown is set forth in Table 18.

**Table 18**  
**General Obligation Bond Debt Service**  
(In Thousands)

| Fiscal Year<br>Ending June 30 | Principal                  | Interest                  | Total                      |
|-------------------------------|----------------------------|---------------------------|----------------------------|
| 2022                          | \$866,275                  | \$431,050                 | \$1,297,325                |
| 2023                          | 878,180                    | 388,217                   | 1,266,397                  |
| 2024                          | 851,850                    | 345,781                   | 1,197,631                  |
| 2025                          | 895,895                    | 302,233                   | 1,198,128                  |
| 2026                          | 876,795                    | 260,325                   | 1,137,120                  |
| 2027                          | 814,065                    | 220,392                   | 1,034,457                  |
| 2028                          | 746,995                    | 183,088                   | 930,083                    |
| 2029                          | 735,785                    | 151,956                   | 887,741                    |
| 2030                          | 574,020                    | 124,000                   | 698,020                    |
| 2031                          | 591,675                    | 101,033                   | 692,708                    |
| 2032                          | 490,520                    | 78,743                    | 569,263                    |
| 2033                          | 440,155                    | 58,125                    | 498,280                    |
| 2034                          | 357,630                    | 41,734                    | 399,364                    |
| 2035                          | 295,075                    | 28,594                    | 323,669                    |
| 2036                          | 244,705                    | 19,172                    | 263,877                    |
| 2037                          | 159,010                    | 12,711                    | 171,721                    |
| 2038                          | 166,965                    | 7,396                     | 174,361                    |
| 2039                          | 75,245                     | 2,389                     | 77,634                     |
| 2040                          | 42,005                     | 840                       | 42,845                     |
| <b>Total</b>                  | <u><u>\$10,102,845</u></u> | <u><u>\$2,757,779</u></u> | <u><u>\$12,860,624</u></u> |

Notes: Does not include general obligation bonds issued during fiscal year 2023.  
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, bridge projects, 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 the Constitutional Debt Limit.

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 at least two of the three 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.

*Line of Credit (General Fund).* The Commonwealth has entered into an agreement with the Pennsylvania Treasury Department that allows the Commonwealth to engage in short-term borrowing of governmental monies on deposit with the Treasury to fund General Fund expenses within the fiscal year (the “STIP Facility”). The Commonwealth borrowed and repaid \$1,000 million in fiscal year 2016, \$2,200 million in fiscal year 2017, \$1,200 million in fiscal year 2018, \$650 million in fiscal year 2019 and \$1,700 million in fiscal year 2020. All STIP Facility borrowings are repaid with interest within the fiscal year. At this time, there is no STIP Facility in place or expected to be needed in this fiscal year.

*Line of Credit (Capital Facilities Fund).* The Commonwealth has entered into an agreement with the Pennsylvania Treasury Department which allows the Commonwealth to engage in short-term borrowing of governmental monies on deposit with the Treasury to fund capital expenses within the fiscal year. As of August 23, 2022, the Commonwealth had a \$300 million balance. If funds are borrowed, they are repaid with interest at settlement of the next general obligation bond issue.

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

**Projected Issuance of Long-Term Debt**

Table 19, on the next page, shows actual and projected future issuance of new-money general obligation bonds (or bond anticipation notes) through fiscal year 2026 as currently estimated, based on current authorizations. Not included, are bonds authorized under the economic stimulus program and other programs of the Commonwealth Financing Authority. Actual issuance of bonds will be affected by several economic and other factors and may vary significantly from the projections contained in the table below.

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**Table 19**  
**General Obligation Bond Issuance and Principal Retirements**  
**Fiscal Years 2023-2027<sup>(a)</sup>**

(In Millions)

|                                           | <b>Fiscal Year Ending June 30</b> |                    |                    |                    |                    |
|-------------------------------------------|-----------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                           | <b><u>2023</u></b>                | <b><u>2024</u></b> | <b><u>2025</u></b> | <b><u>2026</u></b> | <b><u>2027</u></b> |
| Capital Facilities <sup>(b)</sup>         |                                   |                    |                    |                    |                    |
| Buildings and Structures.....             | \$600                             | \$600              | \$600              | \$600              | \$600              |
| Furniture and Equipment.....              | 10                                | 10                 | 10                 | 10                 | 10                 |
| Transportation Assistance.....            | 175                               | 175                | 175                | 175                | 175                |
| Redevelopment Assistance.....             | 350                               | 350                | 350                | 350                | 350                |
| Flood Control.....                        | 0                                 | 0                  | 0                  | 0                  | 0                  |
| Highway and Bridge Projects.....          | 0                                 | 0                  | 0                  | 0                  | 0                  |
| Special Purpose:                          |                                   |                    |                    |                    |                    |
| Pennvest — 1988, 1992 & 2008              |                                   |                    |                    |                    |                    |
| Referenda <sup>(a)</sup> .....            | 0                                 | 0                  | 0                  | 0                  | 0                  |
| Water and Wastewater Referendum.....      | 0                                 | 0                  | 0                  | 0                  | 0                  |
| Growing Greener II Referendum.....        | 0                                 | 0                  | 0                  | 0                  | 0                  |
| Total Projected Issuance.....             | <u>\$1,135</u>                    | <u>\$1,135</u>     | <u>\$1,135</u>     | <u>\$1,135</u>     | <u>\$1,135</u>     |
| Principal Retirement <sup>(c)</sup> ..... | <u>\$830</u>                      | <u>\$893</u>       | <u>\$922</u>       | <u>\$1,017</u>     | <u>\$1,059</u>     |

Totals may not add due to rounding.

<sup>(a)</sup> As set forth in the fiscal year 2023 proposed budget.

<sup>(b)</sup> Includes issuance for new projects and for projects previously authorized.

<sup>(c)</sup> On bonded debt, outstanding and pro forma for projected bond issuances.

## OTHER STATE-RELATED OBLIGATIONS

### Pennsylvania Housing Finance Agency (“PHFA”)

The PHFA is a State-created agency that provides financing for housing for low and moderate-income families, and people with special housing needs 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 minimum capital reserve fund required for such fund. 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 directs the Governor, upon notification from PHFA, to include in the proposed executive budget of the Commonwealth for the next succeeding year an amount sufficient to fund such deficiency to avoid such default. The budget as finally adopted by the General Assembly may or may not include the amount so requested 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, 2022, PHFA had \$3,657.5 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 Commonwealth. All lease payments payable by Commonwealth departments and agencies are subject to and dependent upon an annual spending authorization being approved by the legislature through the Commonwealth’s annual budget process. The Commonwealth is not required by law to appropriate or otherwise provide moneys to pay lease payments. The obligations to be paid from such lease payments do not constitute bonded debt of the Commonwealth.

Table 20, on the next page, contains summary information on material obligations secured by annual appropriations of Commonwealth departments, agencies and authorities payable from the General Fund or other budgeted special funds.

**Table 20**  
**Obligations Secured by Commonwealth**  
**Annual Appropriations as of June 30, 2022**  
(In Thousands)

| <u>Entity</u>                                                    | <u>Purpose</u>           | Maximum Annual<br><u>Principal</u> | Principal<br>Amount<br>Outstanding as<br><u>of 6/30/2022</u> | <u>Final Maturity</u> |
|------------------------------------------------------------------|--------------------------|------------------------------------|--------------------------------------------------------------|-----------------------|
| Harristown Development Corporation                               | Office Space             | \$5,685                            | \$11,085                                                     | May 1, 2024           |
| Sports & Exhibition Authority of Pittsburgh and Allegheny County | Public Auditorium        | 18,465                             | 233,970                                                      | Nov. 1, 2039          |
| NORESCO, LLC                                                     | Equipment                | 2,070                              | 8,465                                                        | Oct. 1, 2026          |
| NORESCO, LLC                                                     | Equipment                | 1,455                              | 5,785                                                        | Oct. 1, 2026          |
| NORESCO/Johnson Controls                                         | Equipment                | 4,195                              | 27,190                                                       | Apr. 1, 2027          |
| Pennsylvania Economic Development Finance Authority              | Convention Center        | 23,680                             | 185,565                                                      | June 15, 2039         |
| Commonwealth Financing Authority                                 | General Government       | 306,850                            | 4,188,595                                                    | June 1, 2043          |
| Pennsylvania Economic Development Finance Authority              | Office Space             | 17,580                             | 92,510                                                       | Mar. 1, 2034          |
| Pennsylvania Economic Development Finance Authority              | Rapid Bridge Replacement | 43,290                             | 629,560                                                      | June 30, 2042         |
| Department of General Services                                   | Lease/Lease Back         | 12,745                             | 189,305                                                      | June 30, 2046         |
| Pennsylvania Economic Development Finance Authority              | County Voting Apparatus  | 8,320                              | 58,620                                                       | June 1, 2030          |

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 Corrections, to acquire certain modular prison dormitory facilities. Certificates of participation in the amount of \$19.3 million were issued in December 2009. The certificates of participation are payable from lease payments made by the Commonwealth from and subject to annual appropriation to its Department of Corrections.

In 2010, the Commonwealth executed an installment purchase agreement with Noresco, LLC, a Massachusetts limited liability company (“Noresco”). The purpose of the installment purchase agreement is to assist the Commonwealth, acting through its Department of Human Services, to acquire certain energy-savings improvements at its Ebensburg facility. Certificates of participation in the amount of \$15.6 million were issued in March 2010 and are payable from lease payments made by the Commonwealth from and subject to annual appropriation to its Department of Human Services. The Commonwealth has also entered into additional installment purchase agreements with Noresco and Johnson Controls. Certificates of participation in the amount of \$86.9 million were issued in October 2010 and are payable by the Commonwealth from and subject to annual appropriations to its Departments of General Services, Corrections and Human Services. Certificates of participation in the amount of \$12.4 million were issued in December 2010 and are payable by the Commonwealth from and subject to annual appropriations to its Departments of General Services and Human Services. The purpose of the additional installment purchase agreements was to assist the Commonwealth, acting through various departments, to acquire certain energy-savings improvements. As it relates to certain of these certificates of participation, the Commonwealth filed a notice (the “Notice”) on the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system (“EMMA”), for purposes of Securities and Exchange Commission Rule 15c2-12 (the “Rule”), of its failure to make timely installment payments due on October 1, 2017 as it relates to those series of certificates as specified in the Notice. The payment for the 2010H Series was made on October 13, 2017 and the payments for the 2010C and 2010D Series were made on October 19, 2017.

On March 1, 2009, the Commonwealth entered into a 25-year master lease agreement for certain office space within the Forum Place complex in the City of Harrisburg. The master lease covered 375,000 square feet of office space and had a term through February 28, 2034. In January 2012, the Pennsylvania Economic Development Financing Authority (“PEDFA”) issued lease revenue bonds in the principal amount of \$107.4 million to acquire the Forum Place complex from the then-controlling majority holder of the defaulted 1998 Dauphin County General Authority bonds.

Contemporaneous with the issuance of the PEDFA bonds to acquire the Forum Place, the Capital Region Economic Development Corporation (CREDC) entered into an agreement with both the Commonwealth and PEDFA pursuant to which the Commonwealth leases approximately 375,000 square feet of office space and 500,000 square feet of parking space in the Forum Place complex from CREDC. The PEDFA Bonds are payable from lease payments made by the Commonwealth to CREDC from and subject to annual appropriations authorizing payments to various Commonwealth agencies occupying the leased space.

### **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 were projected to be adequate to pay all debt service on the Arena Bonds, the revenues have not been able to fully cover the debt service. 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 \$18.6 million. In December 2009, the Commonwealth was notified by the SEA that an additional \$2.8 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 \$2.8 million from the Pennsylvania Gaming and Economic Development Tourism Fund in its fiscal year 2010 budget. Subsequent to the fiscal year 2010 budget, the Commonwealth has been annually notified by the SEA that additional funds are required to support debt service. In each subsequent year, the Commonwealth included the appropriation request in the appropriate fiscal year budget. In fiscal year 2013, the actual amount appropriated to support the SEA debt service was \$736,852.71; in fiscal year 2014, it was \$625,131.51; in fiscal year 2015 it was \$357,712.30; in fiscal year 2016 it was \$640,624.36; in fiscal year 2017 it was \$222,129.79; in fiscal year 2018 it was \$754,059.60; in fiscal year 2019 the debt service was \$695,000.00; in fiscal year 2020 the debt service was \$783,144.78; in fiscal year 2021 the debt service was \$262,764.24; and in fiscal year 2022 the debt service was \$243,753.68.

During April 2010, the SEA issued \$17.4 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 therefor. 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 in 2011. Such acquisition was financed through the issuance by PEDFA of \$281.1 million of revenue bonds (the “Convention Center Bonds”). The Commonwealth, the City of Philadelphia (the “City”) and the Pennsylvania Convention Center Authority (the “Convention Center Authority”) entered into an Operating Agreement (the “Operating Agreement”) in connection with the issuance of the Convention Center Bonds and the acquisition of the Pennsylvania Convention Center which provides for the operation of the Pennsylvania Convention Center by the Convention Center Authority (which also leases the facility), for the City to make an annual payment of \$15 million plus a percentage of its Hotel Room Rental Tax and Hospitality Promotion Tax revenues to support operations of the Pennsylvania Convention Center and for the

Commonwealth to make payments to finance operating deficits and operating and capital reserve deposits of the Pennsylvania Convention Center and to pay debt service on the Convention Center Bonds. The Commonwealth also entered into a Grant Agreement (the “Grant Agreement”) with PEDFA and U.S. Bank National Association, as trustee for the Convention Center Bonds, with respect to the obligations of the Commonwealth to make the payments required under the Operating Agreement and related amounts due with respect to the Pennsylvania Convention Center and the Convention Center Bonds.

The obligations of the Commonwealth under the Operating Agreement and the Grant Agreement do not create indebtedness of the Commonwealth but are payable from (1) funds available in the Gaming Economic Development and Tourism Fund and (2) other funds of the Commonwealth, subject to annual appropriation by the State legislature. Payments from the Gaming Economic Development and Tourism Fund of up to \$64 million 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”)) for the payment of debt issued with regard to the Pennsylvania Convention Center and for operating expenses of the Pennsylvania Convention Center; however, there is no requirement in Act 53 or otherwise that funds in the Gaming Economic Development and Tourism Fund be so applied. Moneys in the Gaming Economic Development and Tourism Fund have also been appropriated by the General Assembly to several other projects and could be appropriated to additional projects in the future. The Gaming Economic Development and Tourism Fund is funded with an assessment of five percent of the gross terminal revenue of all total wagers received by all slot machines in the Commonwealth less cash payments. While the Gaming Economic Development and Tourism Fund is projected to continue to have sufficient revenues to pay its current appropriated obligations, there can be no absolute assurance that the Gaming Economic Development and Tourism Fund in any future fiscal year will receive sufficient receipts to pay its appropriated obligations.

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

### **Commonwealth Financing Authority (“CFA”)**

The CFA 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 for-profit, non-profit and various government 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 and other revenues of the Commonwealth for repayment of CFA obligations. The obligations of the CFA do not constitute a debt or liability of the Commonwealth.

In Act 85 of 2016, the General Assembly enacted a new Section 1753.1-E of the Fiscal Code that obligates the State Treasurer, in consultation with the Commonwealth’s Secretary of the Budget, to transfer the monies necessary for payment of CFA’s debt service each fiscal year, beginning July 1, 2016 from sales tax receipts deposited in the General Fund to a restricted revenue account within the General Fund which may only be used to pay that debt service.

Debt service for Authority debt (other than the Tobacco Bonds (defined below)) is currently payable from continuing appropriations pursuant to Section 1753.1-E of the Fiscal Code while debt service for Tobacco Bonds is currently payable from continuing appropriations pursuant to Sections 2805 and 2809 of the Tax Reform Code.

Since November 2005, the CFA has completed multiple bond issues to fund programs established by its original economic stimulus mission of April 2004, the (“Original Programs.”) Currently, there are no plans to issue additional debt for the Original Programs.

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 provided the CFA with additional bond issuance authority of up to an additional \$1,300 million. Act 63 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. As of 2021, the CFA has issued \$473 million in limited obligation revenue bonds authorized by Act 1 and \$757 million in limited obligation revenue bonds authorized by Act 63. Other than bonds for refunding purposes, there currently are no plans to issue additional debt for these programs.

As of June 30, 2022, the CFA had \$4,356.9 million in outstanding bond debt (including Tobacco Bonds). With respect thereto, a restricted revenue account is funded annually through a Sales and Use Tax Transfer as the source used to service approximately \$3,759.3 million of outstanding debt and the Pennsylvania Gaming and Economic Development and Tourism Fund has been the source used to service approximately \$597.6 million of such outstanding debt.

Pursuant to Act 25 of 2016 (“Act 25”), the CFA is authorized to issue debt related to the Commonwealth’s share of school district construction costs referred to as the PlanCon process. Act 25 established a new funding mechanism to pay school districts for construction reimbursements due to them and to fund capital grants to school districts as part of the PlanCon process. The CFA is authorized to issue up to \$2,500 million in appropriation backed debt in connection with the Commonwealth’s share of school construction costs; debt in excess of \$2,500 million may be incurred by CFA for this purpose if CFA and the Department of Education determine that \$2,500 million is insufficient to carry out the purposes of Act 25 and if the Secretary of the Budget approves such determination. The expectation is that the borrowings (other than refunding bonds) will occur from time to time through fiscal year 2025 based on statute as authorized by Act 25. As of May 31, 2020, the CFA has issued \$1,903 million for construction reimbursement purposes under Act 25.

In addition, the CFA pursuant to Article XXVIII of the Tax Reform Code, added by the Act of October 30, 2017, No. 43 (“Act 43”), issued Tobacco Master Settlement Payment Revenue Bonds, (the “Tobacco Bonds”) on February 13, 2018, in a principal amount necessary to fund a deposit of \$1,500 million in the General Fund of the Commonwealth to provide General Fund budgetary relief. Currently, there are no plans to issue additional Tobacco Bonds (other than for refunding purposes).

## Pensions and Retirement

### *General Information*

The Commonwealth maintains contributory benefit pension plans covering all State employees, public school employees and employees of certain State-related organizations. State employees and employees of certain State-related organizations are members of the Pennsylvania 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.

### History of Retirement System Participants

| Year <sup>(a)</sup> | PSERS                                                   |                |                                 | SERS                               |                |                                 |
|---------------------|---------------------------------------------------------|----------------|---------------------------------|------------------------------------|----------------|---------------------------------|
|                     | Total Annuitants, Beneficiaries and Survivor Annuitants | Active Members | Total Membership <sup>(b)</sup> | Total Annuitants and Beneficiaries | Active Members | Total Membership <sup>(b)</sup> |
| 2017                | 230,014                                                 | 255,945        | 485,959                         | 129,473                            | 102,978        | 232,451                         |
| 2018                | 233,288                                                 | 256,362        | 489,650                         | 131,007                            | 103,007        | 234,014                         |
| 2019                | 237,339                                                 | 255,749        | 493,088                         | 132,731                            | 102,850        | 235,581                         |
| 2020                | 239,614                                                 | 256,246        | 495,860                         | 133,334                            | 100,962        | 234,296                         |
| 2021                | 242,839                                                 | 248,145        | 490,984                         | 134,360                            | 97,857         | 232,217                         |

<sup>(a)</sup> PSERS data as of June 30, 2021, SERS data based upon calendar year 2021.

<sup>(b)</sup> Does not include inactive plan members entitled to but not yet receiving benefits.

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, five appointed by the Governor, two members each from the Senate and House of Representatives, the Secretary of Banking and Securities, and the State Treasurer. The PSERS board has fifteen members, including the Commonwealth's Secretary of Education, the Commonwealth's Secretary of Banking and Securities, the State Treasurer, the Executive Director of the Pennsylvania School Boards Association, one member appointed by the Governor, six elected members (three from among the System's certified members, one from among the System's noncertified members, one from among the System's annuitants, and one from among school board members in Pennsylvania), two members from the Senate, and two members from the House of Representatives. The PSERS and SERS audited financial statements, investment policies, board personnel and other data regarding the respective pension plans are available electronically at the following respective websites: [www.psers.pa.gov](http://www.psers.pa.gov) and [www.sers.pa.gov](http://www.sers.pa.gov).

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. Act 120 of 2010 introduced a shared risk program that can affect member contribution rates for state employees enrolled on or after January 2011 and school members enrolled on or after July 1, 2011 depending on the investments results of the respective retirement system. Act 5 of 2017 enhanced the shared risk program. Under the shared risk program, eligible members benefit when the investments results of the retirement systems are doing well and share some of the risk when the investment underperform benchmarks defined in the retirement codes of each System. The investment performance for the shared risk program is measured every three years and contributions for members eligible for the shared risk program can fluctuate every three years based on how the Systems' actual investment performance compares to the shared risk investment return target defined in the retirement code.

The contribution rate for PSERS members who enrolled in the pension plan on or after January 1, 2002 and before July 1, 2011 is 7.5 percent of compensation. Effective July 1, 2021 the contribution rates for PSERS members who enrolled on or after July 1, 2011 and before June 30, 2019 were increased by 0.5 percent to 8.0 percent or 10.8 percent, depending upon elections made by each member, in accordance with member shared risk provisions of the retirement code. The new rates will remain in effect through June 30, 2024 when they may be adjusted based on the results of the next shared risk measurement period. For PSERS members enrolled on July 1, 2019 or thereafter see member contribution rates in the Act 5 of 2017 table below. The contribution rates for PSERS members who enrolled prior to January 1, 2002 range from 5.25 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 most 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.

### *Act 5 of 2017*

On June 12, 2017, the Governor signed Act 5 of 2017 into law ("Act 5") which established three new pension plan design options for most State employees hired on or after January 1, 2019 and for most school employees hired on or after July 1, 2019.

The new plan design options include two hybrid options, which have both a defined benefit (DB) component and a defined contribution (DC) component, as well as a stand-alone DC plan option. New Pennsylvania State Police officers, corrections officers and other hazardous duty personnel hired on or after January 1, 2019, are exempt from participation in the new plan options. New judges and legislators beginning State service after January 1, 2019, would be included under the new plan designs. The table on the following page provides a brief outline of the new plan

designs for SERS and PSERS. The PSERS and SERS information regarding Act 5 are available electronically at the following respective websites: [www.pfers.pa.gov](http://www.pfers.pa.gov) and [www.sers.pa.gov](http://www.sers.pa.gov).

### Act 5 of 2017

|                                                     | Hybrid (SERS Class A-5, PSERS Class T-G) <sup>(b)</sup>                                                                                                                                                                                                                                                                                                                                                                           | Alternate Hybrid (SERS Class A-6, PSERS Class T-H) <sup>(b)</sup>                                                                                                                                                                                                                                                                                                                                                                  | Defined Contribution (DC) <sup>(a)</sup> |
|-----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|
| <b>Annual Benefit Accrual Rate</b>                  | 1.25%                                                                                                                                                                                                                                                                                                                                                                                                                             | 1.0%                                                                                                                                                                                                                                                                                                                                                                                                                               | N/A                                      |
| <b>New Employee Contribution Rate</b>               |                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                          |
| SERS                                                | <b>8.25%</b> (DB 5.0%, DC 3.25%)                                                                                                                                                                                                                                                                                                                                                                                                  | <b>7.5%</b> (DB 4.0%, DC 3.5%)                                                                                                                                                                                                                                                                                                                                                                                                     | 7.5%                                     |
| PSERS                                               | <b>8.25%</b> (DB 5.5%, DC 2.75%)                                                                                                                                                                                                                                                                                                                                                                                                  | <b>7.5%</b> (DB 4.5%, DC 3.0%)                                                                                                                                                                                                                                                                                                                                                                                                     | 7.5%                                     |
| <b>DC Employer Contribution Rate<sup>(a)</sup></b>  |                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                          |
| SERS                                                | 2.25%                                                                                                                                                                                                                                                                                                                                                                                                                             | 2.0%                                                                                                                                                                                                                                                                                                                                                                                                                               | 3.5%                                     |
| PSERS                                               | 2.25%                                                                                                                                                                                                                                                                                                                                                                                                                             | 2.0%                                                                                                                                                                                                                                                                                                                                                                                                                               | 2.0%                                     |
| <b>Vesting Years</b>                                | DB 10/DC 3                                                                                                                                                                                                                                                                                                                                                                                                                        | DB 10/DC 3                                                                                                                                                                                                                                                                                                                                                                                                                         | 3                                        |
| <b>Final Average Salary</b>                         | Highest 5 Years                                                                                                                                                                                                                                                                                                                                                                                                                   | Highest 5 Years                                                                                                                                                                                                                                                                                                                                                                                                                    | N/A                                      |
| <b>Normal Retirement Age</b><br>(Unreduced Pension) | <b>Age 67/3 years</b> of service; Rule of 97 and 35 eligibility points                                                                                                                                                                                                                                                                                                                                                            | <b>Age 67/3 years</b> of service; Rule of 97 and 35 eligibility points for SERS only                                                                                                                                                                                                                                                                                                                                               | N/A                                      |
| <b>Early Retirement Milestone</b>                   | <b>Age 57/25 years</b> of service                                                                                                                                                                                                                                                                                                                                                                                                 | <b>Age 62/25 years</b> of service for SERS; * <b>Age 55/25 years</b> of service for PSERS                                                                                                                                                                                                                                                                                                                                          | N/A                                      |
| <b>Early Retirement Reduction</b>                   | <p><b>If reach milestone: 3%</b> reduction for each year under age 67</p> <p><b>OR</b></p> <p><b>Age 62/10 years of service for SERS:</b> Actuarial reduction for each year under age 67</p> <p><b>OR</b></p> <p><b>10 years of service but NOT age 62:</b> Standard Actuarial reduction from 62-67 plus special 7.375% rate actuarial reduction for each year under 62 for SERS: PSERS special rate has yet to be determined</p> | <p><b>If reach milestone: 3%</b> reduction for each year under age 67</p> <p><b>OR</b></p> <p><b>Age 62/10 years of service for SERS:</b> Actuarial reduction for each year under age 67</p> <p><b>OR</b></p> <p><b>10 years of service but NOT age 62:</b> Standard Actuarial reduction from 62-67 plus special 7.375% rate actuarial reduction for each year under 62 for SERS: *PSERS special rate has yet to be determined</p> | N/A                                      |

\* PSERS special rate is 7.00%.

<sup>(a)</sup> In addition, there is a defined benefit employer contribution rate that is actuarially determined.

<sup>(b)</sup> Effective July 1, 2021 PSERS defined benefit member contributions rates were increased to 5.75% for Hybrid and 5.25% for the Alternative Hybrid in accordance with the member risk share provisions of the retirement code. The new rates will remain in effect through June 30, 2024 when they may be adjusted based on the results of the next shared risk measurement period.

### Investment Performance

SERS returns for the calendar years 2017, 2018, 2019, 2020 and 2021 were 15.1 percent, -4.6 percent, 18.8 percent, 11.1 percent and 17.2 percent respectively. PSERS' fiscal years 2017, 2018, 2019, 2020 and 2021 investment performance were 10.20 percent, 9.26 percent, 6.66 percent, 1.12 percent and 24.58%, respectively. See "Actuarial Calculations and Unfunded Actuarial Accrued Liability" below regarding investment rate of return assumptions for PSERS and SERS.

## Plan Assets

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

**Table 21**  
**Public School Employees' Retirement Fund <sup>(a)</sup>**

| Year Ended<br><u>June 30</u> | Employer             | Employee                            | Net Investment       | Total Deductions From                 | Plan Net                     |
|------------------------------|----------------------|-------------------------------------|----------------------|---------------------------------------|------------------------------|
|                              | <u>Contributions</u> | <u>Contributions</u> <sup>(a)</sup> | <u>Income (Loss)</u> | <u>Plan Net Assets</u> <sup>(b)</sup> | <u>Assets</u> <sup>(c)</sup> |
| 2017                         | \$ 3,943             | \$ 1,014                            | \$ 4,996             | \$ 6,631                              | \$ 53,279                    |
| 2018                         | 4,288 <sup>(d)</sup> | 1,026                               | 4,716                | 6,816                                 | 56,493                       |
| 2019                         | 4,608                | 1,064                               | 3,631                | 6,928                                 | 58,868                       |
| 2020                         | 4,801                | 1,076                               | 1,004                | 7,041                                 | 58,708                       |
| 2021                         | 4,891                | 1,100                               | 14,764               | 7,301                                 | 72,162                       |

<sup>(a)</sup> Excludes PSERS Health Options Plan activity.

<sup>(b)</sup> Includes PSERS administrative expenses.

<sup>(c)</sup> For the fiscal year ended June 30, 2014, PSERS adopted GASB Statement 67 (Plans) which replaces requirements of Statement 25. This new standard impacts the accounting treatment of pension plans in which state and local governments participate. Except as noted, 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. For the fiscal year ended June 30, 2017, PSERS adopted GASB Statement 74, Financial Reporting for Postemployment Benefit Plans other than Pension Plans. This statement requires changes in presentation of the financial statements and required supplementary information for PSERS' Premium Assistance Plan.

<sup>(d)</sup> Includes the Effect of change in accounting principle of (\$80)

**Table 22**  
**State Employees' Retirement Fund**

| Year Ended<br><u>December 31</u> | Employer             | Employee             | Net Investment                    | Total Deductions From                        | Fiduciary                          |
|----------------------------------|----------------------|----------------------|-----------------------------------|----------------------------------------------|------------------------------------|
|                                  | <u>Contributions</u> | <u>Contributions</u> | <u>Income/Loss</u> <sup>(a)</sup> | <u>Fiduciary Net Position</u> <sup>(b)</sup> | <u>Net Position</u> <sup>(c)</sup> |
| 2017                             | \$ 1,898             | \$ 383               | \$ 4,066                          | \$ 3,330                                     | \$ 29,405                          |
| 2018                             | 2,049                | 394                  | (1,442)                           | 3,469 <sup>(d)</sup>                         | 26,937                             |
| 2019                             | 2,115                | 405                  | 5,175                             | 3,536                                        | 31,096                             |
| 2020                             | 3,187 <sup>(e)</sup> | 410                  | 3,919                             | 3,584                                        | 35,028                             |
| 2021                             | 2,871 <sup>(f)</sup> | 405                  | 5,683                             | 3,756                                        | 40,231                             |

<sup>(a)</sup> Includes net appreciation (depreciation) in fair value of investments.

<sup>(b)</sup> Includes SERS administrative costs.

<sup>(c)</sup> Market value of investment assets. For the fiscal year ended December 31, 2014, SERS adopted GASB Statement No. 67, which replaces requirements of GASB Statement No. 25. These require that investments be reported at their fair value. Also includes securities lending collateral pool pursuant to GASB Statement No. 28.

<sup>(d)</sup> The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB) (GASB 75). This required SERS to record its proportionate share of net OPEB liability, (\$48), resulting in restated beginning balance of \$29,357.

<sup>(e)</sup> In April 2020, Penn State University submitted a payment of \$1.06 billion toward its unfunded liability. In return, the university will receive an annual credit against their contributions for 30 years, beginning in FY 2020-21. The credit totals nearly \$93.3 million for twenty years and then decreases over the final 10 years beginning at nearly \$72.6 million and ending at approximately \$2.3 million in FY 2049-50. The 2020 employer contributions include this lump sum payment.

<sup>(f)</sup> In April 2021, the Pennsylvania State System of Higher Education submitted a payment of \$825 million toward its unfunded liability. In return, the organization will receive an annual credit against their contributions for 30 years, beginning with FY 2021-22. The credit totals more than \$79.9 million for ten years and then decreases over the final 20 years beginning at more than \$69.4 million and ending at nearly \$2.7 million in FY 2050-51. The 2021 employer contributions include this lump sum payment.

## Actuarial Calculations and Unfunded Actuarial Accrued Liability

Annual actuarial valuations are required by State law to determine the employer contribution rates necessary to accumulate sufficient assets and provide for payment of future benefits. Actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may prove to be inaccurate or be changed in the future. Actuarial assessments will change with the future experience of the pension plans. The actuary's recommendations for employer contribution rates

represent a funding plan for meeting current and future retirement obligations. The employer’s contribution rate is computed to fully amortize the unfunded actuarial accrued liability of a plan as determined by the actuary. The unfunded accrued liability is a measure of the present value of benefits estimated to be due in the future for current employees under specified assumptions as to mortality, pay levels, retirement experience and employee turnover, less the present value of assets available to pay those benefits, under specified assumptions of normal cost, supplemental annuity amortization, employer contribution levels and employee contributions. The unfunded actuarial accrued liability for recent years with completed valuations is shown in Table 23 below for both SERS and PSERS.

The Boards of PSERS and SERS hire their actuarial firms through a competitive Request for Proposal process generally for a five-year term. PSERS current actuary is Buck Global, LLC, and SERS actuary is Korn Ferry Hay Group. 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 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 percent for the June 30, 2009 valuation. In March 2011, the PSERS Board decreased the actuarial investment rate of return for a third time from 8 percent to 7.5 percent for the June 30, 2011 actuarial valuation based on a further reduction in the long-term capital market rate of return assumptions of its investment consultant. In June 2016, the PSERS Board decreased the actuarial rate of return for a fourth time in eight years from 7.5 percent to 7.25 percent for the June 30, 2016 actuarial valuation based on a further reduction in expected long term capital market return assumptions. As discussed below, PSERS Board decreased the actuarial rate of return assumption from 7.25% to 7.0% for the June 30, 2021 valuation. In April 2009, the State Employees' Retirement Board decreased SERS’ assumed rate of return on investments from 8.5 percent to 8 percent effective for the December 31, 2008 valuation. In May 2012, SERS’ Board decreased the actuarial rate of return from 8 percent to 7.5 percent for the December 31, 2011 valuation. The SERS Board decreased the actuarial rate of return from 7.5 percent to 7.25 percent for the December 31, 2016 valuation. The SERS Board decreased the actuarial rate of return from 7.25 percent to 7.125 percent for the December 31, 2019 valuation. The SERS Board decreased the actuarial rate of return from 7.125 percent to 7.0 percent for the December 31, 2020 valuation. These changes to SERS’ and PSERS’ investment return assumptions bring both Fund’s return assumptions below the median assumption used by public pension funds nationally.

**Table 23**  
**Unfunded Actuarial Accrued Liability**  
**2017-2021**  
**(In Millions)**

| <u>Valuation Year Ended In</u> | <u>SERS<sup>(a)</sup></u> | <u>PSERS<sup>(b)</sup></u> |
|--------------------------------|---------------------------|----------------------------|
| 2017.....                      | \$ 19,662                 | \$ 44,512                  |
| 2018.....                      | 22,793                    | 44,855                     |
| 2019.....                      | 23,039                    | 44,134                     |
| 2020.....                      | 22,208                    | 44,034                     |
| 2021.....                      | 16,500 *                  | 45,534                     |

<sup>(a)</sup>The fiscal year for SERS ends on December 31 of each year.

<sup>(b)</sup>The fiscal year for PSERS ends on June 30 of each year. Amounts presented are for Pension only and excludes Premium Assistance.

During fiscal year 2021, PSERS Actuary, Buck Global, LLC, presented to the PSERS Board recommendations from the Five-Year Actuarial Study which is a periodic review of actual vs expected actuarial experience of the retirement system in order to ensure that the system is financed on a sound basis. This is an investigation of actuarial experience that has been performed based upon economic and demographic experience from July 1, 2015 through June 30, 2020. The study reviewed the experience and developed recommended assumptions for use in the June 30, 2021 and subsequent valuations. The PSERS Board approved several recommended actuarial assumption changes which included, but was not limited to, lowering the actuarial rate of return from 7.25% to 7.0%, lowering the annual inflation assumption from 2.75% to 2.50%, reducing salary growth from 5.0% to 4.5% and the payroll growth assumption from

3.50% to 3.25% The aggregate impact of all assumption changes increased PSERS unfunded actuarial liability by approximately \$2.8 billion.

For PSERS, its funded ratios as of June 30, 2017 were 56.3 percent and 51.8 percent on an actuarial and market value basis, respectively. As of June 30, 2018, PSERS funded ratios were 56.5 percent and 54.0 percent on an actuarial and market value basis, respectively. As of June 30, 2019, PSERS funded ratios were 58.1% and 55.7% on an actuarial and market value basis, respectively. As of June 30, 2020, PSERS funded ratios were 59.2% and 54.4% on an actuarial and market value basis, respectively. As of June 30, 2021, PSERS funded ratios were 59.6% and 63.9% on an actuarial and market value basis, respectively.

Changes in the PSERS unfunded actuarial liability and unfunded liability on a market value basis are attributable to several factors that include investment returns as well as differences between actual and expected demographic results. Additionally, 2021 unfunded actuarial liability and unfunded liability on a market value basis was also impacted by the change in actuarial assumptions resulting from the most recent five-year experience study.

For SERS, its funded ratios as of December 31, 2017 were 59.4 percent and 60.7 percent on an actuarial and market value basis, respectively. For SERS, its funded ratios as of December 31, 2018 were 56 percent and 52 percent on an actuarial and market value basis, respectively. For SERS, its funded ratios as of December 31, 2019 were 56.5 percent and 58.7 percent on an actuarial and market value basis, respectively. As of December 31, 2020, SERS funded ratios were 59.4 percent and 63.6 percent on an actuarial and market value basis, respectively. As of December 31, 2021, SERS funded ratios were 69.6 percent and 76.0 percent on an actuarial and market value basis, respectively.

Changes in the SERS unfunded actuarial liability are attributable to several factors that include investment returns as well as differences between actual and expected results. Additionally, the 2021 unfunded actuarial liability was also impacted by the receipt of the \$825 million lump sum payment from the Pennsylvania State System of Higher Education pursuant to Act 109-105.

Changes in the unfunded actuarial accrued liability are attributable to investment returns as well as differences between expected and actual experience.

Previously for financial reporting purposes, both PSERS and SERS adopted the Governmental Accounting Standards Board’s (“GASB”) Statement No. 25. Statement No. 25 required a specific method of accounting and financial reporting for defined benefit pension plans. Among other things, Statement No. 25 required a comparison of employer contributions to “annual required contributions” (“ARC”). GASB Statement No. 25 is superseded by GASB’s Statement No. 67 and is only provided for informational purposes. Currently for financial reporting purposes starting with December 31, 2014 for SERS and June 30, 2014 for PSERS, both systems adopted GASB Statement No. 67, which is discussed in the following section under “New Accounting Standards”.

**Table 24**  
**Comparison of Employer Contributions to Actuarially Determined Contribution (“ADC”)/Annual Required Contribution**  
(In Thousands)

| <b>Public School Employees’ Retirement Fund</b> |                          |                        |                    |
|-------------------------------------------------|--------------------------|------------------------|--------------------|
| <b>Year Ended</b>                               | <b>ADC or</b>            | <b>Actual Employer</b> | <b>Percentages</b> |
| <b>June 30</b>                                  | <b>ARC<sup>(a)</sup></b> | <b>Contributions</b>   | <b>Contributed</b> |
| 2021.....                                       | \$4,752,338              | \$4,752,338            | 100%               |
| 2020.....                                       | 4,671,931                | 4,671,931              | 100                |
| 2019.....                                       | 4,478,236                | 4,782,326              | 100                |
| 2018.....                                       | 4,243,328                | 4,243,328              | 100                |
| 2017.....                                       | 3,824,908                | 3,824,908              | 100                |

## State Employees' Retirement Fund

| <u>Year Ended<br/>December 31</u> | <u>ADC or<br/>ARC<sup>(b)</sup></u> | <u>Actual Employer<br/>Contributions</u> | <u>Percentages<br/>Contributed</u> |
|-----------------------------------|-------------------------------------|------------------------------------------|------------------------------------|
| 2021.....                         | \$2,078,951                         | \$2,858,088 <sup>(d)</sup>               | 138%                               |
| 2020.....                         | 2,164,144 *                         | 3,174,854 <sup>(c)</sup> *               | 147                                |
| 2019.....                         | 2,106,138                           | 2,106,138                                | 100                                |
| 2018.....                         | 2,040,434                           | 2,040,434                                | 100                                |
| 2017.....                         | 1,883,541                           | 1,883,541                                | 100                                |

<sup>(a)</sup> Amounts presented are for Pension only and excludes Premium Assistance. The ADC or ARC presented above was determined as part of the actuarial valuation as of two years prior to the dates indicated (i.e., the ADC for the fiscal year ended June 30, 2021 was determined by the valuation completed as of June 30, 2021 which was based on a 7.25 percent interest rate).

<sup>(b)</sup> The ARC is calculated as part of SERS funding valuation using Governmental Accounting Standards Board Statement No. 25 (GASB 25) requirements. Starting in 2014, GASB 25 was superseded by Governmental Accounting Standards Board Statement No. 67 (GASB 67) for accounting purposes. GASB 67 replaces the ARC with an actuarially determined contribution (ADC).

<sup>(c)</sup> The 2020 Actual Employer Contributions includes a \$1.06 billion one-time contribution from Penn State University towards its unfunded liability that was made possible by Act 2019-105.

<sup>(d)</sup> The 2021 Actual Employer Contributions includes an \$825 million one-time contribution from the Pennsylvania State System of Higher Education towards its unfunded liability that was made possible by Act 2019-105.

(\*) Net of purchase of service contributions

The following table provides the State's projected employer contribution rates expressed as a percentage of the actuarially determined covered payroll for PSERS and SERS for the current fiscal year and the next four fiscal years.

**Table 25**  
**Projected Employer Contribution Rates**

| <u>Fiscal Year<sup>(a)</sup></u> | <u>PSERS<sup>(b)</sup></u> | <u>SERS<sup>(c)</sup></u> |
|----------------------------------|----------------------------|---------------------------|
| 2021                             | 34.51%                     | 33.76%                    |
| 2022                             | 34.94                      | 33.68                     |
| 2023                             | 35.62                      | 31.55                     |
| 2024                             | 35.69                      | 28.71                     |
| 2025                             | 36.02                      | 26.64                     |

<sup>(a)</sup> The fiscal year 2021 employer contribution rates are actual rates which began on July 1, 2021.

<sup>(b)</sup> The projection of contribution rates is an assumption that there are no changes in demographic assumptions, no changes in benefit provisions, and no actuarial gains or losses other than gains or losses on the actuarial value of assets that result from recognizing currently deferred gains or losses on the market value of assets. In addition, a constant active population is assumed with future new members to be Class T-G members with the same demographic characteristics of new members during the period 7/1/2018 to 6/30/2021.

<sup>(c)</sup> These projections are based on SERS economic and demographic actuarial assumptions in place for the 12/31/2021 valuation.

### *New Accounting Standards*

In June 2012, GASB issued Statement No. 67 (GASB 67) (Financial Reporting for Pension Plans), which replaces requirements of GASB Statement No. 25 (effective for fiscal years beginning after June 15, 2013) and Statement No. 68 (Accounting and Financial Reporting for Pension Plans by Employers), which replaces the requirements of Statements No. 27 and No. 50 (effective for fiscal years beginning after June 15, 2014). These new standards impact the accounting treatment of pension plans in which state and local governments participate. Major changes are: 1) the inclusion of unfunded pension liabilities on the government's balance sheet (such unfunded liabilities were typically included as notes to the government's financial statements); 2) full pension costs are to be shown as expenses regardless of actual contribution levels; 3) lower actuarial discount rates may be required to be used for most plans for certain purposes of the financial statements, resulting in increased liabilities and pension expenses; and 4) shorter amortization periods for unfunded liabilities will be required to be used for certain purposes of the financial statements, which generally would increase pension expenses.

PSERS implemented GASB 67 in fiscal year 2013-14. For PSERS as of June 30, 2021, the employer net pension liability was \$41.1 billion while plan fiduciary net position as a percentage of the total pension liability was 63.67%. For PSERS as of June 30, 2020, and 2019, the employer net pension liability was \$49.2 billion and \$46.8

billion, respectively, while plan fiduciary net position as a percentage of the total pension liability was 54.32% and 55.66%, respectively.

Over the past 5 years the longer-term trend of the employer net pension liability has decreased from \$49.6 billion to \$41.1 billion and the plan fiduciary net position as a percentage of total pension liability has increased from 50.14% to 63.67% over that time period. For PSERS as of June 30, 2021, actuarially determined contribution (ADC) and contributions in relation to the ADC were both \$4,752 million. For PSERS as of June 30, 2020, actuarially determined contribution (ADC) and contributions in relation to the ADC were both \$4,672 million.

SERS is the administrator of a cost-sharing multiple-employer defined benefit pension plan and reports required items per GASB 67 in Notes to Financial Statements as well as in Required Supplementary Information starting with its 2014 Comprehensive Annual Financial Report. SERS implemented GASB 67 as of December 31, 2014, but also retroactively reported as of December 31, 2013. For SERS as of December 31, 2021, net pension liability was \$12.7 billion while plan fiduciary net position as a percentage of the total pension liability was 76.0 percent. For SERS as of December 31, 2020 and 2019, net pension liability was \$17.2 billion and \$18.2 billion, respectively, while plan fiduciary net position as a percentage of the total pension liability was 67.0 percent and 63.1 percent, respectively. For SERS as of December 31, 2021, actuarially determined contributions are \$2.1 billion and contributions in relation to ADC are \$2.9 billion. Actual contributions for 2021 include the \$825 million lump sum payment received from the Pennsylvania State System of Higher Education as previously mentioned. For SERS as of December 31, 2020, actuarially determined contribution (ADC) were \$2.2 billion and contributions in relation to the ADC were \$3.2 billion. Actual contributions for 2020 include the \$1.06 billion lump sum payment received from Penn State University as indicated in footnote (c) of Table 24. For SERS as of December 31, 2019, actuarially determined contribution (ADC) and contributions in relation to the ADC were both \$2.1 billion.

#### ***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 OPEBs 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 41 percent), and by Federal, Other and Special Funds. Commonwealth costs for such benefits totaled \$895 million in fiscal year 2016, \$818 million in 2017, \$594 million in 2018, \$694 million in 2019, \$579 million in fiscal year 2020, \$410 million in fiscal year 2021 and \$372 million in 2022.

#### ***Governmental Accounting Standards Board Statements #74/75***

In June 2015, the GASB released Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (“Statements No. 74/75”)*. Statements No. 74/75 establish standards for the measurement, recognition and display in the financial reports of state and local governments of OPEBs liabilities, when provided separately from a pension plan, and related expense or expenditures. Under Statements No. 74/75, governments are required to: (i) recognize the actuarial liabilities of promised benefits associated with past service net of any assets held in trust for the payment of those benefits (the net OPEB liability) and the related expense on the accrual basis of accounting; (ii) provide plan information on the membership, benefits, trusted assets, actuarial assumptions, and changes to the net OPEB liability (NOL) from the previous valuation; and (iii) provide information useful in assessing trends and potential demands on the employer’s future cash flows.

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 accounts for the purpose of providing advance funding to both the REHP and RPSPP programs. The Commonwealth had previously established restricted receipt accounts for the REHP and RPSPP programs in order to accumulate funds to pay retiree health care costs on a “pay-as-you-go” basis while maintaining an adequate reserve balance.

In fiscal year 2021-2022, \$50 million was transferred to the REHP Trust Account and \$1 million was transferred to the RPSPP Trust Account from the pre-existing restricted receipt accounts. No additional transfers have been made to the trust accounts. At the end of fiscal year 2021-2022, the combined balance in the trust accounts and restricted receipt accounts was \$775 million.

The Commonwealth has retained Deloitte Consulting, LLP, a multinational professional services firm, to provide actuarial services for GASB 75 implementation and reporting. The Deloitte Consulting's 2020-2021 OPEB valuation for the REHP and RPSPP programs is updated to reflect the following:

The combined NOL measured as of June 30, 2021 was \$18,441 million. The NOL for the REHP was \$10,232 million comprised of an actuarial accrued liability of \$10,899 million less \$667 million of plan assets. The NOL for the RPSPP was \$8,209 million comprised of an actuarial accrued liability of \$8,348 million less \$139 million of plan assets.

## 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 toll and non-toll bridges across the Delaware River north of the toll bridges operated by DRPA (defined below). Debt service on bonds is paid from tolls and other revenues of DRJTBC. DRJTBC had \$676.3 million in bonds outstanding as of June 30, 2022.

*Delaware River Port Authority ("DRPA").* The DRPA, a public corporation of the Commonwealth and New Jersey, operates several toll bridges over the Delaware River within and near Philadelphia, 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 \$1,145.9 million in revenue bond debt outstanding as June 30, 2022.

*Pennsylvania Economic Development Financing Authority.* PEDFA was created in 1987 to offer pooled bond and other bond issues of both taxable and tax-exempt bonds on behalf of local industrial and commercial development authorities for economic development projects. Bonds may be payable from and secured by loan repayments and all other revenues of the PEDFA. The PEDFA had \$5,867.6 million of debt outstanding as of June 30, 2022.

*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 \$2,630.8 million in bonds outstanding as of June 30, 2022.

*Pennsylvania Higher Educational Facilities Authority ("PHEFA").* The PHEFA is a public corporation of the Commonwealth established to finance college facilities. As of June 30, 2022, the PHEFA had \$5,432.7 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 \$45.4 million in revenue bond debt outstanding on June 30, 2022, to which all 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 \$81.6 million of revenue bonds outstanding as of June 30, 2022.

*Pennsylvania Turnpike Commission (“PTC”).* The PTC operates the Pennsylvania Turnpike System (“System”). Its outstanding indebtedness, \$15,442.4 million as of June 30, 2022, is payable from the net revenues of the System, primarily toll revenues, or from certain taxes dedicated to the System.

*State Public School Building Authority (“SPSBA”).* The SPSBA finances public school projects and community college capital projects. 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 \$2,271.5 million of revenue bonds outstanding as of June 30, 2022.

### **City of Philadelphia – PICA**

The Pennsylvania Intergovernmental Cooperation Authority (“PICA”) was created by Commonwealth Act No. 1991-6, approved June 5, 1991 to assist the City of Philadelphia (the “City”), the Commonwealth’s largest city, in remedying its fiscal emergencies. PICA is authorized to provide financial assistance to the City through the issuance of debt, and to make factual findings and recommendations to the City 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 deficit of the City, as of June 30, 1992, of \$224.9 million. Under the PICA act, the City is required to submit to PICA: (i) a five-year financial plan on an annual basis; and (ii) quarterly financial reports. Currently the City is operating under a five-year financial plan that covers fiscal years 2020 through 2024, which was approved by PICA.

PICA had \$10.87 million in special tax revenue bonds outstanding as of June 30, 2022. The final maturity date for the PICA bonds is June 15, 2023.

Over the years, the City has expressed a desire to retain the financial oversight and reporting requirements of the PICA act beyond the expiration of the PICA Bonds. On September 29, 2021, a bill was introduced in the House of Representatives of Pennsylvania (“House Bill 1935”) that amends the PICA Act to, among other things, (i) extend the term of existence of PICA until the later of January 2, 2047 or one year after all its liabilities are met or, in the case of PICA Bonds, one year after provision for such payment shall have been made or provided for in the applicable bond indenture; (ii) continue all of the financial oversight and reporting requirements of the PICA act for the life of PICA (regardless of whether PICA Bonds are outstanding); (iii) permit on a limited basis, at the request of the City, the issuance of PICA Bonds for capital projects of the City; and (iv) continue the authorization and dedication of the PICA Tax for so long as PICA remains in existence (regardless of whether any PICA Bonds are outstanding). After passing both houses of the General Assembly, House Bill 1935 was signed into law by the Governor on July 7, 2022.

Neither the taxing power nor the credit of the Commonwealth is pledged to pay debt service on the PICA 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 *Nextel Communications* 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 1,423 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 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 civil cases up to \$250,000 per incident. Damages in excess of \$250,000 are paid from departmental and agency operating and program appropriations.

***Pennsylvania Professional Liability Joint Underwriting Association v. Wolf, Nos. Nos. 18-2297, 18-2323, 19-1057 & 19-1058 (Third Cir. Ct. of Appeals); 1:19-cv-01121 (U.S.D.C., M.D. Pa.)***

The Pennsylvania Professional Liability Joint Underwriting Association ("JUA") first initiated an action against Governor Wolf on May 18, 2017, case no. 1:17-cv-00886-CCC (M.D. Pa.). The JUA challenged, on various federal constitutional grounds, a provision of Act 85 of 2016 that directed (1) the transfer of \$200,000,000 from the JUA to the General Fund and (2) repayment of the transferred sum over a five-year period commencing July 1, 2018. The contemplated transfer did not take place. During the pendency of case no. 1:17-cv-00886-CCC, Act 44 of 2017 became law. Act 44 of 2017 again mandated the transfer of \$200,000,000 from the JUA to the General Fund and, if such transfer was not made by December 1, 2017, mandated the abolishment of the JUA. The JUA challenged Act 44 of 2017 at case no. 1:17-cv-02041-CCC (M.D. Pa.). To date, no transfer of funds from the JUA to the General Fund has taken place. On November 30, 2017, the Court stayed case no. 1:17-cv-00886-CCC pending the outcome of 1:17-cv-02041-CCC. On May 17, 2018, the Court held that the sections of Act 44 of 2017 pertaining to the JUA are an unconstitutional taking of private property under the 5th and 14th Amendments to the U.S. Constitution. Act 41 of 2018 folded the JUA into the Department of Insurance and shifted control of the JUA and its assets to that Department. The JUA challenged Act 41 of 2018 at case no. 1:18-cv-01308-CCC (M.D. Pa.). On December 18, 2018, the Court held that Act 41 of 2018 also violated the 5th and 14th Amendments to the U.S. Constitution. Governor Wolf and the other defendants have appealed the trial court orders to the Third Circuit Court of Appeals, which has consolidated the cases for appeal. The appellate briefing is finished and the Third Circuit scheduled argument. During the pendency of the appeal, the General Assembly enacted Act 15 of 2019. This act, among other things, places the JUA under the purview of the Right-To-Know Law, the Commonwealth Attorneys Act, the Pennsylvania Web Accountability and Transparency Act, and the Commonwealth Procurement Code. Act 15 of 2019 also newly requires the JUA to submit annual budget requests to the Secretary of the Budget and to be funded via appropriations from the General Assembly. Aside from these requirements, Act 15 of 2019 does not implicate any transfer of funds to or from the JUA or the General Fund. The JUA brought a new action challenging the constitutionality of the law, case no. 1:19-cv-1121 (U.S.D.C., M.D. Pa.), seeking, in part, a preliminary injunction. On July 17, 2019, the district court denied the request for injunctive relief, finding that the JUA had failed to establish irreparable harm. Because of the enactment of Act 15 and initiation of case no. 1:19-cv-1121, the Third Circuit canceled oral argument and placed the appeal on its *curia advisor vult* (CAV) list, requiring the parties to inform the Court every 120 days of the status of case no. 1:19-cv-1121, and any additional legislative enactments. The appeal is stayed pending adjudication of the challenge to Act 15 in the district court. The Court issued a ruling on December 22, 2020, holding Act 15 unconstitutional in part. Particularly, the Court ruled that Act 15 is unconstitutional insofar as it resources the entity, and requires it to comply with the budgetary process, because it restricts the use of its private funds. It ruled that it is unconstitutional as a violation of the First Amendment and procedural due process insofar as it applies the Commonwealth Attorneys Act, because it restricts JUA's choice of counsel. The Court did grant summary judgment with respect to JUA's claims against the application of the Sunshine Act, and Right-to-Know Law, holding that these provisions are constitutional as rational.

All parties appealed the District Court's order on Act 15 to the Third Circuit, which consolidated the three appeals. Briefing concluded in July 2021. The Third Circuit has scheduled oral arguments for November 9, 2022.

***RB Alden Corp. v. Commonwealth of PA (Pennsylvania Supreme Court)***

This matter raises the same net operating loss deduction ("NOL Deduction") issue that was raised in *Nextel Communications of the Mid-Atlantic*, except that the statutory provision in *RB Alden* limits the deduction to \$2 million (rather than \$3 million in *Nextel*), and does not allow for an alternative deduction amount based on a percentage (12.5%) of taxable income. On June 15, 2016, a panel of the Commonwealth Court of Pennsylvania held that, in accordance with its decision in *Nextel*, the cap on the NOL Deduction was unconstitutional and should be eliminated in its entirety. On Exceptions, the decision was affirmed by the Commonwealth Court sitting *en banc*. Both decisions were handed down by the Commonwealth Court before the Pennsylvania Supreme Court decided in *Nextel* to sever the \$3 million flat deduction, leaving intact the deduction consisting of 12.5% of taxable income.

The Commonwealth appealed to the Pennsylvania Supreme Court. RB Alden filed a cross appeal because Commonwealth Court rejected RB Alden’s argument that the Tax Benefit Rule applied to remove all caps on the NOL Deduction. This Rule provides that recovery of a previously deducted loss is not included in taxable income to the extent that the earlier deduction did not reduce the amount of tax owed in the year the initial deduction was taken. Commonwealth Court determined that the Tax Benefit Rule, operating to remove all caps on the NOL Deduction, is contrary to the statute which expressly limited the NOL Deduction to \$2 million. On September 21, 2018, the Supreme Court vacated the Commonwealth Court’s order and remanded the case to Commonwealth Court for reconsideration in light of the Supreme Court’s decision in *Nextel v. Commonwealth*, 171 A.3d 682 (Pa. 2017). This matter was argued before a panel in Commonwealth Court on September 10, 2019. On November 21, 2019, the Commonwealth Court issued its opinion in 73 F.R. 2011. The parties agreed, and the Court held, that the \$2,000,000 NOL cap violated the Uniformity Clause of the Pennsylvania Constitution. The Court concluded that the NOL cap could be severed and retroactively applied that remedy. The Commonwealth filed exceptions on December 20, 2019 and, as part of those exceptions, asked that Commonwealth Court’s order be deemed final. An appeal to the Pennsylvania Supreme Court was filed on February 20, 2020. Briefing in the Pennsylvania Supreme Court was completed in September 2020, after which the appeal was held pending final disposition of *General Motors v. Commonwealth*. On February 23, 2022, the Pennsylvania Supreme Court vacated the Commonwealth Court’s order and the matter was remanded to Commonwealth Court. The matter remains pending in Commonwealth Court.

#### ***General Motors Corporation v. Commonwealth of Pennsylvania (Pennsylvania Supreme Court)***

This matter raises the same issue as *R.B. Alden Corp.* The Supreme Court in *Nextel* held that the statutory dollar cap on the net loss deduction (“NOL Deduction”) is unconstitutional. With the elimination of the dollar cap, the issue now is whether the NOL Deduction is unlimited or if there is no deduction at all for a tax year in which the statute does not provide for an alternative deduction amount based on a percentage of taxable income. In addition, this case raises the issue of whether the Due Process and Equal Protection Clauses of the U.S. Constitution and the Remedies Clause of the Pennsylvania Constitution require backward-looking relief that might result in a refund granted to General Motors. On November 21, 2019, the Commonwealth Court issued its opinion in 869 F.R. 2012. As with *RB Alden Corp.*, no. 73 F.R. 2011, the Court held that the NOL cap violated the Uniformity Clause of the Pennsylvania Constitution. The Court concluded that the NOL cap could be severed and retroactively applied that remedy. The Commonwealth filed exceptions on December 20, 2019 and, as part of those exceptions, asked that Commonwealth Court’s order be deemed final. An appeal to the Pennsylvania Supreme Court was filed on February 27, 2020. On December 21, 2021, the Pennsylvania Supreme Court issued a 5-2 decision and held that General Motors was entitled to an unlimited NOL Deductions and ordered Revenue to calculate a refund based upon that recalculation. The matter was remanded to the Board, a hearing was held and after consultation with DOR’s Bureau of Audits (and any necessary adjustment to the existing NOL’s was made), DOR consented to the refund amount. BF&R issued Order approving the refund and Treasury has been directed to issue the refund requested. No further action is anticipated on this matter.

#### ***Alcatel-Lucent USA, Inc. v. Commonwealth of Pennsylvania (Commonwealth Court)***

Following the *Nextel* decision, the Department of Revenue issued Corporation Tax Bulletins 2017-10 and 2018-02 to announce that the flat-dollar cap on the net loss deduction would no longer be available for tax years beginning in 2017 and thereafter. Alcatel-Lucent challenges those Bulletins and argues that the Department of Revenue has violated the uniformity, equal protection, due process, and remedies clauses in its failure to retroactively apply *Nextel* and assess taxpayers who took the flat-dollar net loss deduction beginning with the 2014 tax year. On September 13, 2021, a unanimous Commonwealth Court panel held that *Nextel* applied prospectively and denied the request for a retroactive refund. On June 22, 2022, the matter was argued on exceptions before the Commonwealth Court sitting *en banc*. Applying *Nextel* retroactively would result in tax refunds of approximately \$150 million for the 2014 – 2016 tax years and tax refunds of approximately \$208 million for the 2007 – 2013 tax years. Argument was held before Commonwealth Court panel last month. No decision issued yet.

#### ***Synthes USA HQ, Inc. v. Commonwealth of Pennsylvania (Pennsylvania Supreme Court)***

Synthes filed its tax return using the statutory method for reporting service receipts and now seeks a refund based on the Department of Revenue’s historical interpretation of the statute, which sources service receipts to the customer location. Synthes argues that the Department of Revenue is violating the Uniformity Clause by unequally enforcing the statute. The Office of Attorney General argues that Synthes is required to report its sales in accordance with the statutory method, which is inconsistent with the requested methodology of sourcing to the customer location,

and that the Department of Revenue has been uniform in its enforcement of the statute. Initial briefing was completed on February 4, 2020. On February 11, 2020, the Department of Revenue filed an Application to Intervene. Oral argument before the Commonwealth Court occurred on June 11, 2020. On July 24, 2020, the Commonwealth Court ruled in favor of Synthes. The Commonwealth filed exceptions to the Commonwealth Court's decision on August 24, 2020. The Commonwealth Court's July 24, 2020 order was entered as final on January 21, 2021. The Commonwealth filed an appeal to the Pennsylvania Supreme Court on February 16, 2021. Briefing in the Pennsylvania Supreme Court was completed in August 2021 and oral argument occurred on March 10, 2022 and we await a decision.

***Pennsylvania Environmental Defense Foundation (PEDF) v. Commonwealth of PA, No. 228 MD 2012 (Pennsylvania Commonwealth Court); 64 MAP 2019 (Pennsylvania Supreme Court)***

PEDF filed a petition for review involving Article I, § 27 of the Pennsylvania Constitution (“the environmental rights amendment”), the Conservation and Natural Resources Act, and the Oil and Gas Lease Fund Act. PEDF argues that rentals and bonus bid payments for oil and gas leases constitute corpus of the trust under the environmental rights amendment. On June 20, 2017, the Supreme Court held that the Commonwealth owes a fiduciary duty to the people of Pennsylvania to preserve natural resources. The Court ruled that proceeds from the sale of oil and gas must remain in the corpus of the trust and cannot be used on general budgetary items, but remanded to Commonwealth Court regarding the nature of rentals and bonus bid payments. Commonwealth Court held that (1) rents and bonuses were not received in consideration for permanent severance of natural resources; (2) two-thirds of the proceeds of rents and bonuses constitute trust principal, with one-third of the proceeds constituting income; and (3) the income portion may be used for non-conservation purposes. On August 12, 2019, PEDF appealed the ruling to the Pennsylvania Supreme Court. On July 21, 2021, the Supreme Court issued a decision reversing Commonwealth Court and holding that income generated from bonus payments, rentals, and penalty interest must be returned to the trust corpus as a matter of trust law. This case is now closed.

***Pennsylvania Environmental Defense Foundation (PEDF) v. Commonwealth of PA, 65 MAP 2020***

PEDF filed a Petition for Review in the Nature of Declaratory Relief in the Commonwealth Court. It challenged the Department of Conservation and Natural Resources (DCNR)'s use of money from the Oil & Gas Lease Fund (OGLF) to cover DCNR's general operating costs. If PEDF is successful, DCNR's operating costs going forward will have to be accounted for by appropriation from the General Fund. In an October 20, 2020, decision, the Commonwealth Court held that (1) the use of OGLF money for DCNR's general operating costs is not unconstitutional as it is related to the trust purposes of environmental conservation and maintenance, (2) there is no requirement that oil and gas lease funds from the Marcellus Shale region be used in that region, and (3) the Commonwealth must maintain accurate records of the Lease Fund and track trust principal as part of its trustee duties. On November 3, 2021, PEDF filed an appeal with the Pennsylvania Supreme Court. On December 8, 2021, the Supreme Court heard oral argument limited to four issues: (1) Are appropriations from the OGLF in the General Appropriations Acts of 2017 and 2018 to pay for the general operations of DCNR permissible under Article I, Section 27 of the Pennsylvania Constitution (Section 27)? (2) Did the Governor and Commonwealth violate Article I, Section 25 of the Pennsylvania Constitution by using Section 27 trust assets to perform their budgetary functions under Articles III, IV and VIII of the Pennsylvania Constitution? (3) Did the Commonwealth Court err when it concluded that the OGLF may be expended on environmental conservation initiatives beyond the Marcellus Shale region? And (4) Did the Commonwealth Court err by failing to declare that Section 27 trust assets in the OGLF from the extraction and sale of State Forest oil and natural gas in northcentral Pennsylvania remain a part of the corpus of the trust comprised of our State Forest and Park public natural resources in northcentral Pennsylvania; and must be appropriated to DCNR to conserve and maintain through the science of ecosystem management? On August 5, 2022, the PA Supreme Court affirmed the Commonwealth Court's opinion.

***Pennsylvania Environmental Defense Foundation (PEDF) v. Commonwealth of PA, Case No. 393 MD 2019***

PEDF filed a petition for declaratory relief asking the Commonwealth Court to block transfers from DCNR's Oil and Gas Fund to pay for DCNR's operating expense in Fiscal Year 2019-20 budget. This case was stayed pending the court's disposition of the parties' cross-motions for summary relief in 358 MD 2018. In 358 MD 2018, the court granted in part and denied in part the cross-applications for summary relief. The court issued a memorandum opinion on October 22, 2020, granting PEDF's application for summary relief insofar as it sought a declaration that the Commonwealth is required to maintain accurate records of the Lease Fund and track trust principal as part of its trustee duties, but the court denied the application in all other respects. The court granted the Commonwealth's application for summary relief concluding that the following legislative enactments are not facially unconstitutional: Sections 104(P) and 1601 of the General Appropriation Acts of 2017 and 2018; the repeal of the 1955 Lease Fund Act; Section 1601.2-E

of The Fiscal Code; and Section 1726-G of The Fiscal Code. The court also granted the Commonwealth's declaratory request that Lease Fund money, including trust principal, may be expended on environmental conservation initiatives beyond the Marcellus Shale region. However, the court denied the Commonwealth's application insofar as it sought a declaration that its current usage of the trust is wholly consistent with its Section 27 trustee responsibilities and that affirmative legislation is not necessary. PEDF appealed the court's October 22, 2020, decision in 358 MD 2018 to the Supreme Court which is docketed 65 MAP 2020 and summarized above.

***Pennsylvania Environmental Defense Foundation (PEDF) v. Commonwealth of PA, Case No. 253 MD 2021***

In its fourth related petition concerning the use of the Oil and Gas Lease Funds, PEDF seeks to compel the State Treasurer to provide an accounting of all Oil and Gas Lease money from 2009-10 through present; pay approximately \$383 million into the Oil and Gas Lease Fund to correct for prior transfers to the General Fund; pay approximately \$800 million, without appropriation, into the Oil and Gas Lease Fund to redress amounts taken for DCNR's general budgetary needs; and pay approximately \$200 million, without appropriation, into the Oil and Gas Lease Fund money to redress appropriations made to the Marcellus Legacy Fund. This case has also been stayed and is pending the Supreme Court's disposition of 65 MAP 2020.

***Munchinski v. Warman, et al (U.S.D.C., W.D. Pa.)***

This is a case alleging due process violations by a now-deceased Pennsylvania State Police (PSP) officer. It arises from the alleged malicious prosecution and failure to disclose exculpatory evidence in a 1986 murder trial and at a Post-Conviction Relief Act proceeding. The former inmate was released after spending 20-plus years in State prison. All motions practice has been concluded; dispositive motions were partially successful, leaving only the malicious prosecution claim against the PSP defendant for trial. The Commonwealth's estimated exposure easily exceeds \$2,000,000. The matter has been settled with payment from the Commonwealth in the amount of \$5,750,000. Final processing of the payment has yet to be completed.

***William Penn Sch. Dist. v. Commonwealth, (Pa Cmwlth. Ct.)***

The Petitioners (including School Districts, parents, and other interested parties) filed a Petition for Review in the Nature of an Action for Declaratory and Injunctive Relief in Commonwealth Court against, inter alia, the Department of Education, the Governor, and members of the General Assembly, seeking to mandate that the Respondents provide adequate funding that would result in equal opportunity for children throughout the Commonwealth to obtain an adequate education. Petitioners ask the Court to enter permanent injunctions compelling the Respondents to establish, fund, and maintain a thorough and efficient system of public education that provides all students in Pennsylvania with an equal opportunity to obtain an adequate education. This matter was previously dismissed by the Commonwealth Court, which found that it presented a nonjusticiable political question. Petitioners filed an appeal with the Pennsylvania Supreme Court, which reversed the Commonwealth Court and ordered the Commonwealth Court to address Petitioners' claims. The Executive Branch would not be solely responsible for funding and relief, and Petitioners have not yet articulated an amount that they would consider to be adequate funding. Previous studies, however, indicate that Petitioners may seek additional education investments totaling up to \$4.6 billion per year. Trial has concluded and the parties are waiting a decision from the Court.

***Geness v. Commonwealth of Pennsylvania (USDC, Western District of Pennsylvania)***

This is a case where the plaintiff, a middle-aged man with a diagnosis of mental retardation, was charged with homicide in Fayette County. He was incarcerated for over 9 years before the criminal case was dismissed. He alleges that the Commonwealth, essentially through the actions of the Fayette county Judges, violated the Americans with Disabilities Act by not giving him a prompt determination of his ability to be competent to stand trial. Both the Department of Human Services (DHS) and the Administrative Office of Pennsylvania Courts (AOPC) have become involved in the case as additional defendants. DHS came to terms on a settlement and finalized the agreement. AOPC successfully pursued an interlocutory appeal and is out of the case (although Plaintiff filed a cert petition which is pending). A motion for summary judgment by the Commonwealth was denied. A defense verdict was obtained at trial but Plaintiff filed an appeal. The Third Circuit Court of Appeals affirmed the defense verdict.

***Hall v. Millersville University (U.S.D.C., E.D. Pa.)***

In this case, claims are made against Millersville University and a dorm resident assistant under Title IX and the Due Process Clause (State created danger theory) in a case where a student at Millersville was found dead in her room. Also sued in the case is the fraternity that hosted a party that evening and individual members of the fraternity.

The District Court has dismissed the due process claim, and summary judgment on the Title IX claim is currently pending. Total damages in this case, if recoverable, may exceed \$1,000,000. On September 5, 2019, the Court entered summary judgment in favor of the Defendants, including Millersville University. On appeal, the Third Circuit Court of Appeals recently reversed the District Court's ruling and recently denied a request for re-argument. A jury trial is scheduled for September 27, 2022.

***Netflix, Inc. and Sirius XM Radio, Inc, 1017 F.R. 2017; 766 F.R. 2018. (Commonwealth Court)***

Netflix provides video streaming service and Sirius XM provides commercial-free radio programming to customers across the country. Between January 2012 and July 2016, neither entity charged sales tax on services sold to Pennsylvania customers. The Department of Revenue audited and assessed Netflix's video services and Sirius XM's radio services as taxable premium cable or premium video programming services. Netflix was assessed sales tax of \$26.2 million and Sirius was assessed sales tax of \$45.4 million. In *Netflix, Inc.*, Commonwealth Court issued an order on November 10, 2021 directing the filing of a stipulation for judgment or a stipulation of facts on or before February 8, 2022. In *Sirius XM Radio, Inc.*, the parties agreed to a settlement whereby *Sirius* paid tax and interest of \$583,266.68. The *Sirius* appeal is now closed in Commonwealth Court.

***Siehl vs. Troopers Brant and Ermlick; WDPa No. 3:18-cv-00077-LPL***

Plaintiff was incarcerated for 25 years for the murder of his spouse. Plaintiff secured post-conviction relief based on irregularities in the handling of the evidence used to obtain Plaintiff's conviction. As a result, the conviction was vacated and it was later determined that Plaintiff would not be retried. The claims for relief include 42 U.S.C. §1983 Malicious Prosecution, Fabrication of Evidence; Violation of Brady vs. Maryland. Given the nature of the litigation and the facts that have come out during discovery, the risk of exposure is well over \$1,000,000. Discovery is ongoing. Mediation is scheduled for September 30, 2022.

***Weimer vs. County of Fayette, WDPa No. 2:17-cv-01265-MPK***

Plaintiff was arrested and convicted of Criminal Homicide after a state trooper assigned to a cold case squad assisted in a local police investigation. Plaintiff was subsequently released after two key witnesses recanted their testimony. Nevertheless, Plaintiff served approximately 10 years in custody. Given the nature of the litigation, the Commonwealth's estimated exposure is expected to possibly exceed \$1,000,000. We filed a motion for summary judgment in October 2021 which remains pending.

***Anglemyer, et al. v. Ammons, et al., No. 19-3714 (E,D.Pa.)***

This is a § 1983 excessive force lawsuit brought by four of nine residents of a home that was raided by Pennsylvania State Police's ("PSP") Special Emergency Response Team pursuant to a search warrant. Each plaintiff asserts they were subjected to excessive force resulting in injury. Medical records confirm that two of the plaintiffs, including the elderly homeowner, suffered significant injuries. There are currently 19 PSP defendants. Discovery has closed and we have filed a motion for summary judgment which remains pending. It is possible that total exposure (after accounting for the fact that plaintiff's attorney's fees are recoverable) may exceed \$1,000,000.

***Lewis James Fogle v. Pennsylvania State Troopers John Sokol, Michael Steffee, Donald Beckwith, John Bardroff, Andrew Mollura, and Glenn Walp 17-194 (U.S.D.C., W.D. Pa)***

Plaintiff was incarcerated for 35 years for the murder of a 15 year old victim. While Plaintiff was not charged with rape, there were allegations at the criminal trial that she was raped. In 2014, DNA specimen collected from the victim was tested and it did not match Plaintiff. As a result, the conviction was vacated. The claims for relief include 42 U.S.C. §1983 Malicious Prosecution in violation of the Fourth and Fourteenth Amendments; 42 U.S.C. §1983 Deprivation of Liberty without Due Process of Law and Denial of a Fair Trial by Withholding of Material Exculpatory and Impeachment Evidence; 42 U.S.C. §1983 Civil Rights Conspiracy; and 42 U.S.C. §1983 Failure to Intervene. Given the nature of the litigation and the facts that have come out during discovery, the risk of exposure is well over \$2.5 million. Fact discovery has closed except for one deposition. Near the end of fact discovery, Plaintiff made a demand of \$24 million. The parties, who had not gone through mandatory ADR at the outset of the case because there had been an active appeal ongoing, mediated the case in front of Kenneth Benson on December 23, 2021. All parties agreed to try mediation prior to expending resources on DNA expert analysis, other expert discovery, and motions for summary judgment. After several rounds of negotiation, PSP Defendants offered \$2.5 million. Plaintiff's final demand before negotiation between Plaintiff and PSP ended was \$21 million. Indiana County Defendants had not made an offer at that point. And after negotiations between PSP and Plaintiff ended, County Defendants settled for an undisclosed

amount. The case will proceed between PSP and Plaintiff to expert discovery. The Court has not yet set deadlines for expert discovery and filing dispositive motions.

***Greenwood Gaming and Entertainment, Inc., et al. v. Department of Revenue, et al. 571 MD 2018 (Commonwealth Court)***

Group of Pennsylvania casinos challenge the Pennsylvania Lottery's internet instant games alleging they simulate interactive casino-style games in violation of Act 42 of 2017, which amended the Pennsylvania Race Horse Development and Gaming Act. Petitioners seek to either shut down the entire iLottery system or strip the games of certain features. If the Court grants the relief sought it could potentially result in the loss of significant revenue to the Lottery, which over time could be in the millions of dollars. Following a bench trial in October 2020, judgment was entered in favor of the Department of Revenue. Petitioners have appealed. Commonwealth Court determined iLottery program was not in violation of the Gaming Act. Motion for Post-Trial Relief denied and matter appealed to Supreme Court with briefing concluded.

***Lee v. Lamas, No. 19-cv-241 (E.D. Pa.)***

Plaintiff brings a putative collective action under the Fair Labor Standards Act and class action under the Pennsylvania Minimum Wage Law alleging that Corrections Officer Trainees and Corrections Officer 1s at SCI-Chester prison were not paid for post-shift work. Specifically, Plaintiff avers that he was forced to wait at his post at the end of a shift change for the next shift's officer to arrive, and he was not paid for this time. The case is currently in discovery. A motion for summary judgment based upon 11<sup>th</sup> Amendment immunity is pending. If a class or large collective action is certified, and if Plaintiff's allegations are true, the total damages owed by the Commonwealth may exceed \$1,000,000.

***LeadingAge PA, et al. v. Com. of PA, Dep't of Human Serv., No. 637 MD 2020 (Commonwealth Court)***

In this original jurisdiction action, Petitioners are three trade associations representing >900 nursing care facilities which participate in the jointly-funded Medical Assistance Program (Medicaid). By statute, nursing facilities pay an assessment to PA-DHS each year. To simplify several steps: after the federal government pays its share of Medicaid expenses to the state, PA-DHS pays into the managed care organization which then pays back the facilities. As part of the Covid Relief & Recovery Act, Congress increased the federal share of Medicaid funds in 2020 and made enhanced payments to the states. Petitioners allege this means PA-DHS must use all such funds received as direct supplemental payments to the nursing facilities and seek a declaratory judgment and writ of mandamus. Petitioners seek in excess of \$150 million although the maximum potential liability is closer to \$60 million. Petitioners' last settlement demand was \$52 million in the form of direct payments to the nursing facilities. A voluntary mediation, with all parties and their counsel, was held in June 2022, at which the parties tentatively agreed upon a contingent total (federal plus state) payment of \$40 million. If approved, less than half of the \$40 million would come from Commonwealth sources. This offer is contingent upon several things, including but not limited to federal (CMS) approval of the federal share of \$40 million in the form of supplemental payments to the nursing facilities participating in Medicaid. DHS will draft a proposed State Plan Amendment and Petitioners will submit comments for CMS approval in the fall of 2022.

***Brown v. Wilson, Case No. 2:20-cv-985 (W.D.Pa.)***

After investigation by Pennsylvania State Police, Plaintiff was arrested, charged and adjudicated delinquent in the murder of his stepmother when he was eleven years old. On appeal, the Superior Court affirmed the adjudication; however, the Supreme Court concluded there was insufficient evidence to support his adjudication of delinquency beyond a reasonable doubt for the offenses charged. Consequently, Plaintiff was released after spending nearly 10 years in custody. Given the nature of the litigation, the Commonwealth's estimated exposure is likely to exceed \$1,000,000. Fact discovery has concluded and the case is now in expert discovery.

***Jeff Dunn v. Dep't of Human Svcs., Case No. 605 M.D. 2017 (Commw. Ct.)***

Petitioner filed a Petition for Review against the Department of Human Services claiming a violation of the Pennsylvania Whistleblower Law. Petitioner was the former Institutional Safety Manager at Warren State Hospital. Petitioner complained about his former supervisor's conduct and claims it rose to the level of workplace violence. Petitioner asserts that he was terminated after making these reports; however, the agency claims that they terminated Petitioner because of his inability to complete necessary tasks. Because this is a whistleblower claim, Petitioner is entitled to reinstatement, payment of back wages, benefits, pain and suffering, attorney's fees and costs. Petitioner claims he has mitigated is damages but his back wages total more than \$200,000 on top of all other forms of damages.

Courts are permitted to double the amount of actual damages and provide a petitioner with compensatory damages of equal value without additional evidence in a whistleblower claim. Discovery is ongoing.

***Heidi Sroka v. Dep't of Corrections; Case No. 19-cv-45 (WDPa)***

Plaintiff is a former Corrections Superintendent Assistant at SCI Somerset. She was terminated from her employment after it was discovered that she was backdating inmate grievance forms and encouraging subordinates to do so. Plaintiff alleges that her termination was a result of discrimination and retaliation based upon her gender and age (55 at time of termination). Plaintiff has produced an economic loss report which calculates her economic loss at \$648,640 (assuming retirement at age 60) or \$1,066,366 (assuming retirement at age 67). This matter has been settled for \$575,000 and the final paperwork is being completed.

***Kaufman et al v. Pennsylvania State Police et al., WDPa No. 2:20-cv-01383-WSH***

PSP responded to Plaintiffs' decedent's residence after his family called 911 because Plaintiffs' decedent had retrieved his rifle and was threatening to shoot the neighbors. Plaintiffs' decedent was shot and killed by the PSP SERT Team after he refused to put down the rifle that he was pointing at the Troopers. Plaintiffs' counsel has had issues with identifying and serving the appropriate PSP Defendants; however, it appears that the case will move forward. Given the nature of the litigation, the Commonwealth's estimated exposure is likely to exceed \$1,000,000.

***Boursiquot v. PSP, et. al. (U.S.D.C., E.D. Pa.)***

This case alleges negligence and state-created danger claims as a result of a vehicle accident involving PSP Trooper Waida. Trooper Waida was responding to a call when he collided with a passenger vehicle. Plaintiff-driver suffered injuries requiring a cervical fusion. Plaintiff is alleging that, as a result of her injuries, she can no longer work or care for herself independently. The Commonwealth's estimated exposure exceeds \$1,000,000. This matter is in discovery, but it is also being mediated by Magistrate Judge Lloret on August 15, 2022.

## **RATINGS**

Fitch Ratings, Inc. ("Fitch") has assigned its municipal bond rating of "AA-" (outlook "Positive") to the Bonds. Moody's Investor Service, Inc. ("Moody's") has assigned its municipal bond rating of "Aa3" (outlook "Stable") to the Bonds. S&P Global Ratings ("S&P") has assigned its municipal bond rating of "A+" (outlook "Stable") to the Bonds.

The ratings reflect only the views of the respective rating agencies.

The ratings described in the first paragraph of this section 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 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 MATTERS**

### **Federal Income Tax Treatment**

In the opinion of Co-Bond Counsel, under existing law, and assuming continuing compliance by the Commonwealth with certain certifications and agreements relating to the use of the Bond proceeds and covenants to comply with provisions of the Internal Revenue Code of 1986, as amended (the "Code") and all applicable regulations thereunder, now or hereafter enacted, interest on the Bonds is excludable from gross income for federal income tax

purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. However, interest on the Bonds is taken into account in determining annual adjusted financial statement income of applicable corporations (as defined in Section 59(k) of the Code) for the purpose of computing the federal alternative minimum tax imposed on such corporations for tax years beginning after December 31, 2022.

The opinion of Co-Bond Counsel on federal tax matters will be based upon and will assume the accuracy of certain representations and certifications, and compliance with certain covenants, of the Commonwealth to be contained in the transcript of proceedings for the issuance of the Bonds and that are intended to evidence and assure that the Bonds are and will remain obligations the interest on which is excludable from gross income for federal income tax purposes. Co-Bond Counsel will not independently verify the accuracy of those certifications and representations or covenants.

The Code prescribes a number of qualifications and conditions for the interest on state and local obligations to be and to remain excludable from gross income for federal income purposes, some of which require future or continued compliance after issuance of the obligations in order for the interest to be and to continue to be so excluded from the date of issuance. Noncompliance with these requirements by the Commonwealth may cause the interest on the Bonds to be included in gross income for federal income tax purposes and thus to be subject to federal income tax retroactively to their date of issuance. The Commonwealth has covenanted to take the actions required of it for the interest on the Bonds to be and to remain excludable from gross income for federal income tax purposes and not to take any actions that would adversely affect that exclusion. Co-Bond Counsel have not undertaken to evaluate, determine or inform any person, including any holder of the Bonds, whether any actions taken or not taken, events, events occurring or not occurring, or other matters that might come to attention of Co-Bond Counsel, would adversely affect the value of, or tax status of the interest on, the Bonds.

The opinion of Co-Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities and represents Co-Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not a guarantee of any result, and is not binding on the Internal Revenue Service or the courts.

Co-Bond Counsel are not rendering any opinion as to any federal tax matters other than those described under this caption "**Federal Income Tax Treatment**" and expressly stated in the proposed form of the opinion of Co-Bond Counsel included as Appendix G hereto. PROSPECTIVE PURCHASERS OF THE BONDS SHOULD CONSULT THEIR INDEPENDENT TAX ADVISORS WITH REGARD TO ALL FEDERAL TAX MATTERS.

Co-Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds.

### **Risk of Future Legislative Changes and/or Court Decisions**

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 Bonds. In addition, legislation may be introduced and enacted in the future which could change the provisions of the Code relating to the Bonds of a state or local governmental unit, such as the Commonwealth, or the taxability of interest in general.

Proposals to alter or eliminate the exclusion of interest on tax-exempt bonds from gross income for some or all taxpayers have been made in the past and may be made again in the future. Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Bonds. For example, for tax years beginning after December 31, 2022, the Inflation Reduction Act of 2022 (H.R. 5376) will impose a minimum tax of 15 percent on the adjusted financial statement income of applicable corporations as defined in Section 59(k) of the Code (which is primarily designed to impose a minimum tax on certain large corporations). For this purpose, adjusted financial statement income is not reduced for interest earned on tax-exempt obligations. PROSPECTIVE PURCHASERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISERS REGARDING ANY PROPOSED FEDERAL TAX LEGISLATION, AS TO WHICH BOND COUNSEL EXPRESSES NO OPINION.

No representation is made or can be made by the Commonwealth or any other party associated with the issuance of the 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 Bonds to federal income taxes or so as to otherwise affect the marketability or market value of the Bonds.

### **Original Issue Discount and Original Issue Premium**

The Bonds maturing on October 1, 2039 and October 1, 2041 are offered at a discount (“original issue discount”) equal generally to the difference between public offering price and principal amount. For federal income tax purposes, original issue discount on a Bond accrues periodically over the term of the Bond as interest with the same tax exemption and alternative minimum tax status as regular interest. The accrual of original issue discount increases the holder’s tax basis in a Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Holders should consult their tax advisers for an explanation of the accrual rules.

The Bonds maturing on October 1, 2023 through October 1, 2036 and October 1, 2038, October 1, 2040, and October 1, 2042 are offered at a premium (“original issue premium”) over their principal amount. For federal income tax purposes, original issue premium is amortizable periodically over the term of a Bond through reductions in the holder’s tax basis for the Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortization of premium does not create a deductible expense or loss. Holders should consult their tax advisers for an explanation of the amortization rules.

### **State Tax Exemption**

Under the laws of the Commonwealth as presently enacted and construed, the interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax.

The Bonds and the interest thereon may be subject to state or local taxes in jurisdictions other than the Commonwealth under applicable state or local tax laws.

### **Other**

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

## **UNDERWRITING**

After competitive bidding on September 7, 2022, the Bonds were awarded to a selling group represented by BofA Securities (the “Underwriters”) for a purchase price of \$1,096,982,000.00 which is equivalent to the principal amount of such Bonds, less Underwriters’ discount of \$1,420,000.00 plus net original issue premium of \$98,402,000.00. The Underwriters have supplied the public offering yields and prices of the Bonds shown on the inside cover hereof. If all of the Bonds are resold to the public at such yields, the underwriters’ discount will approximate 0.142000 percent of the aggregate principal amount of the Bonds. The Underwriters may change the public offering yields from time to time.

## **LEGALITY FOR INVESTMENT**

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

## **CO-FINANCIAL ADVISORS**

PFM Financial Advisors LLC, Philadelphia, Pennsylvania, and Sustainable Capital Advisors, LLC, Washington DC, are serving as independent co-financial advisors to the Commonwealth with respect to the Bonds (the “Co-Financial Advisors”). The Co-Financial Advisors’ fees in connection with the issuance of the Bonds are expected to be paid from Bond proceeds. The Co-Financial Advisors are not obligated to undertake, and have not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Official Statement. PFM Financial Advisors LLC, is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. Sustainable Capital Advisors, LLC is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

## **LEGAL MATTERS**

All legal matters incident to the authorization and issuance of the Bonds are subject to the approval of the Office of Attorney General of the Commonwealth of Pennsylvania, McNeese Wallace & Nurick LLC of Harrisburg, Pennsylvania, Law Office of Nathaniel M. Holmes, LLC of Harrisburg, Pennsylvania, and Gosfield Law LLC of Gladwyne, Pennsylvania, Co-Bond Counsel. A copy of the opinion of Co-Bond Counsel will accompany the Bonds delivered to DTC. Copies of the opinion of the Office of Attorney General, together with additional copies of the opinions of Co-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.

Certain legal matters will be passed upon for the Commonwealth by Greenberg Traurig, LLP and Andre C. Dasent, P.C., both of Philadelphia, Pennsylvania, serving as Co-Disclosure Counsel for the Commonwealth.

## **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, Attn.: Mr. Steven Heuer, 18th Floor, Harrisburg 2, 333 Market Street, Harrisburg, Pennsylvania 17101-2210 (Telephone (717) 787-7342). Recent Annual Comprehensive Financial Report summaries of enacted fiscal year budgets 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**

In order to assist the Underwriters in complying with Rule 15c2-12 as in effect on the date hereof, promulgated under the Securities Exchange Act of 1934, as amended (the “Rule”), simultaneously with the issuance of the Bonds, the Commonwealth will enter into a written agreement (the “Continuing Disclosure Agreement”) for the benefit of the Beneficial Owners of the Bonds in substantially in the form attached hereto as “Appendix H – FORM OF CONTINUING DISCLOSURE AGREEMENT.” The Commonwealth, as an “obligated person” under the Rule, has covenanted in the Continuing Disclosure Agreement to provide: (a) certain financial information and operating data relating to the Commonwealth and the Bonds in each year (the “Annual Report”); and (b) notice of the occurrence of certain enumerated events as described in the Continuing Disclosure Agreement (each, a “Listed Event Notice”). The Annual Report and each Listed Event Notice, if applicable, will be filed by or on behalf of the Commonwealth, with the repository designated by the SEC, presently the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access system in an electronic format prescribed by the MSRB. The specific nature and timing of filing the Annual Report and each Listed Event Notice, and other details of the Commonwealth’s undertakings are more fully described in “Appendix H – FORM OF CONTINUING DISCLOSURE AGREEMENT” attached hereto.

The following disclosure is being provided by the Commonwealth for the sole purpose of assisting the Underwriters in complying with the Rule: The Commonwealth previously entered into continuing disclosure undertakings, as an “obligated person” under the Rule (the “Undertakings”). In the previous five year period beginning on June 30, 2017 and ending on June 30, 2022 (the “Compliance Period”), the Commonwealth has, in several instances during the Compliance Period, failed to comply with certain provisions of the Undertakings, including: (a) failing to timely file certain annual financial information and/or operating data, (b) failing to provide certain required annual

financial information and operating data in its annual filings, and (c) failing to file or timely file certain notices. The foregoing description of instances of non-compliance by the Commonwealth with the Undertakings should not be construed as an acknowledgement by the Commonwealth that any such instance was material.

#### **AUTHORIZATION**

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

/s/ Tom Wolf  
Tom Wolf, Governor

/s/ Stacy Garrity  
Stacy Garrity, State Treasurer

/s/ Timothy L. DeFoor  
Timothy L. DeFoor, Auditor General

**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, Timothy L. DeFoor, Auditor General of the Commonwealth of Pennsylvania, pursuant to Article VIII, Section 7(a)(4) of the Pennsylvania Constitution and Section 304 of Capital Facilities Debt Enabling Act (Act 1 of 1999, as amended) certify as follows:

|                                                                                                                                                                                                                                        |                   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| The average annual tax revenues deposited in all funds in the five fiscal years ended preceding the date of February 28, 2022 .....                                                                                                    | \$ 43,007,553,352 |
| (i) The amount of outstanding net debt as of the end of the preceding fiscal year .....                                                                                                                                                | \$ 10,062,514,196 |
| (ii) The amount of such net debt as of February 28, 2022 .....                                                                                                                                                                         | \$ 9,467,409,164  |
| (iii) The difference between the limitation upon all net debt outstanding as provided in Article VIII, Section 7 (a) (4) of the Constitution of Pennsylvania and the amount of such net debt as of the date of February 28, 2022 ..... | \$ 65,795,809,201 |
| (iv) The amount of such debt scheduled to be repaid during the remainder of the current fiscal year .....                                                                                                                              | \$ 169,535,000    |
| (v) The amount of debt authorized by law to be issued, but not yet incurred .....                                                                                                                                                      | \$153,949,018,968 |
| (vi) The amount of outstanding obligations excluded from outstanding debt as self-sustaining pursuant to Article VIII, Section 7(c)(1), (2) and (3) of the Constitution of Pennsylvania .....                                          | \$ 7,880,211,639  |

IN TESTIMONY WHEREOF, I have set my hand and affixed the seal of the Auditor General, this 28th day of February 2022.

|        |                                                                          |
|--------|--------------------------------------------------------------------------|
| (Seal) | /s/ Timothy L. DeFoor<br>Auditor General<br>Commonwealth of Pennsylvania |
|--------|--------------------------------------------------------------------------|

## SELECTED DATA ON THE COMMONWEALTH OF PENNSYLVANIA

### General

The Commonwealth is one of the nation's most populous states, ranking fifth behind California, Texas, Florida, and New York. Pennsylvania stakes claim to a diverse economy and many thriving industries. At different times throughout its history, the Commonwealth has been the nation's principal producer of ships, iron, chemicals, lumber, oil, textiles, glass, coal, and steel. This led Pennsylvania to be identified, historically, as a heavy industrial state. That reputation has changed over the last several decades as the coal, steel and railroad industries have declined. The Commonwealth's business environment readjusted with a more diversified economic base. Currently, the major sources of growth in Pennsylvania are in the service sector, including healthcare, leisure-hospitality, transport, and storage.

However, development of natural gas continues to be one of the biggest factors in Pennsylvania's economic outlook. Although direct employment in natural resources and mining is a small part of total jobs in the state, its rapidly rising location quotient helps to illustrate the growth seen in the last few years. More important to the economy at all levels are the related jobs created in other sectors, such as construction, transportation, and professional services. State manufacturers have already benefitted from demand for steel and equipment being used to drill the wells and get them connected to demand centers via pipelines. Pennsylvania's competitiveness in manufacturing should be enhanced by the decreased costs of energy and petrochemical feedstocks coming from beneath the state.

The state's manufacturing sector may not be what it was during the heydays of Pittsburgh's dominance in the steel industry and Philadelphia's claim to be "Workshop of the World," but the state's share of manufacturing employment remains above the national average. Output of pharmaceuticals remains an engine of growth, while the rapid increase in the state's production of natural gas liquids provides the basis for gains in production of chemicals and plastics. Employment in the state's manufacturing sector will gradually increase over the next two years but remain below the pre-pandemic level.

Professional, scientific, and technical services will continue to be a bright spot for the state in terms of job growth and economic output gains. High-tech fields such as artificial intelligence, industrial automation, and bio-sciences will see the most growth, while more traditional fields such as legal services will see more moderate gains. The state's healthcare and social service sector will continue to be a reliable source of job gains, but overall growth may be slower than in years past. Gains will be focused in the large metro areas, while smaller towns and rural areas feel the effects of low (or negative) population growth and fewer available services.

Finally, the state's geographic location makes it a prime corridor for the transportation of goods. From its extensive rail service and ports to its grid of interstate highways, Pennsylvania remains an integral part of the northeast region's economic activity.

### Population

The Commonwealth is highly urbanized. The largest Metropolitan Statistical Areas ("MSAs") in the Commonwealth are those that include the cities of Philadelphia and Pittsburgh, which together contain the majority of the state's total population. The population of Pennsylvania, 12.9 million people in 2021, 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 Middle Atlantic region comprised of persons 45 or over. The following tables present the population trend from 2017 to 2021 and the age distribution of the population for 2021.

**Population Trends  
Pennsylvania, Middle Atlantic Region and the United States  
2017-2021**

| As of July 1 | Total Population<br>(In Thousands) |                                           |               | Total Population as<br>a % of 2017 base |                                           |               |
|--------------|------------------------------------|-------------------------------------------|---------------|-----------------------------------------|-------------------------------------------|---------------|
|              | PA                                 | Middle<br>Atlantic<br>Region <sup>a</sup> |               | PA                                      | Middle<br>Atlantic<br>Region <sup>a</sup> |               |
|              |                                    | United States                             | United States |                                         | United States                             | United States |
| 2017.....    | 12,788                             | 41,263                                    | 324,986       | 100.0%                                  | 100.0%                                    | 100.0%        |
| 2018.....    | 12,801                             | 41,217                                    | 326,688       | 100.1%                                  | 99.9%                                     | 100.5%        |
| 2019.....    | 12,802                             | 41,138                                    | 328,240       | 100.1%                                  | 99.7%                                     | 101.0%        |
| 2020.....    | 12,783                             | 41,002                                    | 329,484       | 100.0%                                  | 99.4%                                     | 101.4%        |
| 2021.....    | 12,964                             | 42,067                                    | 331,894       | 101.4%                                  | 101.9%                                    | 102.1%        |

<sup>a</sup> Middle Atlantic Region: Pennsylvania, New York and New Jersey. Source: U.S. Department of Commerce, Bureau of the Census

**Population by Age Group - 2020\***  
Pennsylvania, Middle Atlantic Region and the United States

| Age                    | PA    | Middle<br>Atlantic<br>Region <sup>a</sup> | United States |
|------------------------|-------|-------------------------------------------|---------------|
| Under 5 Years.....     | 5.4%  | 5.6%                                      | 5.9%          |
| 5 -24 Years.....       | 23.9% | 23.9%                                     | 25.4%         |
| 25-44 Years.....       | 25.3% | 26.3%                                     | 26.8%         |
| 45-64 years.....       | 26.2% | 26.2%                                     | 25.1%         |
| 65 years and over..... | 19.1% | 17.9%                                     | 16.9%         |

<sup>a</sup> Middle Atlantic Region: Pennsylvania, New York and New Jersey. Source: U.S. Department of Commerce, Bureau of the Census

\* 2020 Estimated data

## Employment

Non-agricultural employment in Pennsylvania increased from 2017 through 2019 before decreasing in 2020. Non-agricultural employment also decreased in 2020 throughout the Middle Atlantic Region and the entire United States. However, it did slightly rebound in 2021. The following table shows employment trends from 2017 through 2021 in these areas.

**Non-Agricultural Establishment Employment Trends  
Pennsylvania, Middle Atlantic Region and the United States  
2017-2021**

| Calendar Year | Total Establishment Employment<br>(thousands) |                                           |         | Total Establishment Employment<br>as a % of 2017 base |                                           |      |
|---------------|-----------------------------------------------|-------------------------------------------|---------|-------------------------------------------------------|-------------------------------------------|------|
|               | PA                                            | Middle<br>Atlantic<br>Region <sup>a</sup> |         | PA                                                    | Middle<br>Atlantic<br>Region <sup>a</sup> |      |
|               |                                               | U.S.                                      | U.S.    |                                                       | U.S.                                      | U.S. |
| 2017.....     | 5,941                                         | 19,623                                    | 146,595 | 100%                                                  | 100%                                      | 100% |
| 2018.....     | 6,010                                         | 19,855                                    | 148,893 | 101%                                                  | 101%                                      | 102% |
| 2019.....     | 6,065                                         | 20,058                                    | 150,900 | 102%                                                  | 102%                                      | 103% |
| 2020.....     | 5,619                                         | 18,287                                    | 142,252 | 95%                                                   | 93%                                       | 97%  |
| 2021.....     | 5,751                                         | 18,820                                    | 146,102 | 97%                                                   | 96%                                       | 100% |

<sup>a</sup> Middle Atlantic Region: Pennsylvania, New York and New Jersey

As shown below, manufacturing employment in Pennsylvania has increased in 2021 and reached 91 percent of total non-agricultural employment. Consequently, manufacturing employment constitutes a diminished share of total employment within the Commonwealth. Manufacturing, contributing 9 percent of 2021 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 2021, the services sector accounted for 49 percent of all non-agricultural employment while the trade sector accounted for 14 percent. The following table shows trends in employment by sector for Pennsylvania from 2017 through 2021.

**Non-Agricultural Establishment Employment by Sector  
Pennsylvania  
2017-2021  
(In Thousands)**

|                                           | Calendar Year  |             |                |             |                |             |                |             |                |             |
|-------------------------------------------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|-------------|
|                                           | 2017           |             | 2018           |             | 2019           |             | 2020           |             | 2021           |             |
|                                           | Employees      | %           |
| <b>Manufacturing:</b>                     |                |             |                |             |                |             |                |             |                |             |
| Durable.....                              | 335.8          | 6%          | 343.0          | 6%          | 345.4          | 6%          | 319.0          | 6%          | 319.9          | 6%          |
| Non-Durable.....                          | 227.0          | 4%          | 227.9          | 4%          | 229.3          | 4%          | 218.6          | 4%          | 222.5          | 4%          |
| <b>Total Manufacturing.....</b>           | <b>562.9</b>   | <b>9%</b>   | <b>570.9</b>   | <b>9%</b>   | <b>574.7</b>   | <b>9%</b>   | <b>537.6</b>   | <b>10%</b>  | <b>542.3</b>   | <b>9%</b>   |
| <b>Non-Manufacturing:</b>                 |                |             |                |             |                |             |                |             |                |             |
| Trade <sup>a</sup> .....                  | 838.8          | 14%         | 836.2          | 14%         | 826.7          | 14%         | 769.1          | 14%         | 796.4          | 14%         |
| Finance <sup>b</sup> .....                | 321.1          | 5%          | 325.9          | 5%          | 330.8          | 5%          | 325.3          | 6%          | 327.0          | 6%          |
| Services <sup>c</sup> .....               | 2,958.0        | 50%         | 2,998.8        | 50%         | 3,037.2        | 51%         | 2,728.3        | 49%         | 2,823.6        | 49%         |
| Government.....                           | 703.1          | 12%         | 703.1          | 12%         | 706.7          | 12%         | 685.0          | 12%         | 675.9          | 12%         |
| Utilities.....                            | 281.9          | 5%          | 290.7          | 5%          | 300.2          | 5%          | 294.9          | 5%          | 310.3          | 5%          |
| Construction.....                         | 249.0          | 4%          | 255.8          | 4%          | 261.1          | 5%          | 241.1          | 4%          | 253.2          | 4%          |
| Mining.....                               | 26.7           | 0%          | 28.7           | 0%          | 28.9           | 1%          | 23.0           | 0%          | 21.8           | 0%          |
| <b>Total Non-Manufacturing.....</b>       | <b>5,378.5</b> | <b>91%</b>  | <b>5,439.1</b> | <b>91%</b>  | <b>5,491.5</b> | <b>91%</b>  | <b>5,066.9</b> | <b>90%</b>  | <b>5,208.2</b> | <b>91%</b>  |
| <b>Total Employees<sup>d,e</sup>.....</b> | <b>5,941.4</b> | <b>100%</b> | <b>6,010.0</b> | <b>100%</b> | <b>6,066.2</b> | <b>100%</b> | <b>5,604.4</b> | <b>100%</b> | <b>5,750.6</b> | <b>100%</b> |

<sup>a</sup>Wholesale Trade  
<sup>b</sup>Finance, insurance and real estate  
<sup>c</sup>Includes transportation, communications, electric, gas and sanitary services  
<sup>d</sup>Discrepancies due to rounding  
<sup>e</sup>Does not include workers involved in labor-management disputes  
Source: US Bureau of Labor and Statistics

The following table presents the percentages of non-agricultural employment in various sectors in Pennsylvania and the United States in 2021.

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

|                              | 2021 Calendar Year |               |
|------------------------------|--------------------|---------------|
|                              | Pennsylvania       | United States |
| Manufacturing.....           | 9.4%               | 8.5%          |
| Trade <sup>a</sup> .....     | 13.8               | 14.4          |
| Finance <sup>b</sup> .....   | 5.7                | 6.0           |
| Services.....                | 49.1               | 46.1          |
| Government.....              | 11.8               | 15.1          |
| Utilities <sup>c</sup> ..... | 5.4                | 4.2           |
| Construction.....            | 4.4                | 5.1           |
| Mining.....                  | 0.4                | 0.4           |
| <b>Total.....</b>            | <b>100.0%</b>      | <b>100.0%</b> |

<sup>a</sup>Wholesale and retail trade.  
<sup>b</sup>Finance, insurance and real estate.  
<sup>c</sup>Includes transportation, communications, electric, gas and sanitary services.  
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 the fabricated metals industries is 14 percent of Pennsylvania manufacturing employment but only 1.4 percent of total Pennsylvania non-agricultural employment in 2021. The following table shows trends in manufacturing employment by industry for Pennsylvania from 2017 through 2021.

**[INTENTIONALLY LEFT BLANK]**

**Manufacturing Establishment Employment by Industry  
Pennsylvania  
2017-2021**  
(In Thousands)

|                                             | Calendar Year |              |              |              |              |              |              |              |              |              |
|---------------------------------------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                             | 2017          | %            | 2018         | %            | 2019         | %            | 2020         | %            | 2021         | %            |
| <b>Durable Goods:</b>                       |               |              |              |              |              |              |              |              |              |              |
| Primary Metals.....                         | 35.0          | 6.1          | 35.7         | 6.3          | 35.9         | 6.2          | 32.0         | 5.9          | 30.9         | 5.7          |
| Fabricated Metals.....                      | 80.2          | 14.1         | 82.4         | 14.4         | 82.9         | 14.4         | 76.6         | 14.3         | 76.4         | 14.1         |
| Machinery (excluding electrical).....       | 43.7          | 7.7          | 45.7         | 8.0          | 46.2         | 8.0          | 42.8         | 8.0          | 42.4         | 7.8          |
| Electrical Equipment.....                   | 26.3          | 4.6          | 26.9         | 4.7          | 27.2         | 4.7          | 25.7         | 4.8          | 25.4         | 4.7          |
| Transportation Equipment.....               | 36.6          | 6.4          | 37.5         | 6.6          | 38.7         | 6.7          | 34.6         | 6.4          | 35.4         | 6.5          |
| Furniture Related Products.....             | 16.4          | 2.9          | 16.3         | 2.9          | 15.8         | 2.7          | 14.2         | 2.6          | 15.0         | 2.8          |
| Other Durable Goods.....                    | 104.8         | 18.4         | 100.9        | 17.7         | 72.3         | 12.6         | 94.2         | 17.5         | 94.5         | 17.4         |
| <b>Total Durable Goods.....</b>             | <b>343.0</b>  | <b>60.2</b>  | <b>343.0</b> | <b>60.1</b>  | <b>345.4</b> | <b>60.1</b>  | <b>319.0</b> | <b>59.3</b>  | <b>319.9</b> | <b>59.0</b>  |
| <b>Non-Durable Goods:</b>                   |               |              |              |              |              |              |              |              |              |              |
| Pharmaceutical/ Medicine.....               | 18.6          | 3.3          | 18.3         | 3.2          | 19.0         | 3.3          | 19.6         | 3.7          | 20.5         | 3.8          |
| Food Products.....                          | 71.7          | 12.6         | 73.0         | 12.8         | 73.5         | 12.8         | 71.3         | 13.3         | 73.2         | 13.5         |
| Chemical Products.....                      | 41.3          | 7.3          | 41.1         | 7.2          | 42.4         | 7.4          | 42.2         | 7.9          | 43.6         | 8.0          |
| Printing and Publishing.....                | 23.7          | 4.1          | 23.1         | 4.0          | 22.4         | 3.9          | 19.5         | 3.6          | 18.6         | 3.4          |
| Plastics/Rubber Products.....               | 40.0          | 7.0          | 40.2         | 7.0          | 40.5         | 7.0          | 38.8         | 7.2          | 39.7         | 7.3          |
| Other Non-Durable Goods.....                | 32.6          | 5.7          | 33.8         | 5.9          | 20.8         | 3.6          | 31.0         | 5.8          | 26.9         | 5.0          |
| <b>Total Non-Durable Goods.....</b>         | <b>227.0</b>  | <b>39.8</b>  | <b>227.9</b> | <b>39.9</b>  | <b>229.3</b> | <b>39.9</b>  | <b>218.6</b> | <b>40.7</b>  | <b>222.5</b> | <b>41.0</b>  |
| <b>Total Manufacturing Employees*</b> ..... | <b>570.0</b>  | <b>100.0</b> | <b>570.9</b> | <b>100.0</b> | <b>574.7</b> | <b>100.0</b> | <b>537.6</b> | <b>100.0</b> | <b>542.3</b> | <b>100.0</b> |

\*Discrepancies due to rounding. 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  
4th Quarter, 2021**

| Company                               | Rank | Company                                   | Rank |
|---------------------------------------|------|-------------------------------------------|------|
| Wal-Mart Associates Inc.....          | 1    | Vanguard Group Inc.....                   | 16   |
| Trustees of the University of PA..... | 2    | Universal Protection Service LLC.....     | 17   |
| United Parcel Service Inc.....        | 3    | Saint Luke's Hospital.....                | 18   |
| Giant Food Stores LLC.....            | 4    | Merck Sharp & Dohme Corporation.....      | 19   |
| Amazon.com DEDC LLC.....              | 5    | Wawa Inc.....                             | 20   |
| Pennsylvania State University.....    | 6    | FedEx Ground Package System Inc.....      | 21   |
| UPMC Presbyterian Shadyside.....      | 7    | Sheetz Inc.....                           | 22   |
| Target Corporation.....               | 8    | Western Penn Allegheny Health.....        | 23   |
| FNC Bank NA.....                      | 9    | Lehigh Valley Hospital.....               | 24   |
| University of Pittsburgh.....         | 10   | Milton S Hershey Medical Center.....      | 25   |
| Weis Markets Inc.....                 | 11   | Wegmans Food Markets Inc.....             | 26   |
| Low e's Home Centers LLC.....         | 12   | Temple University.....                    | 27   |
| Home Depot USA Inc.....               | 13   | Pennsylvania CVS Pharmacy LLC.....        | 28   |
| Giant Eagle Inc.....                  | 14   | Thomas Jefferson University Hospital..... | 29   |
| Comcast Cablevision Corp (PA).....    | 15   | East Penn Manufacturing Company.....      | 30   |

Source: Pennsylvania Department of Labor & Industry

**Unemployment**

During 2021, Pennsylvania had an annual unemployment rate of 6.3 percent. This represents an increase from 2017 when the unemployment rate was 4.9 percent. The following table represents the annual unemployment rate in Pennsylvania, the Middle Atlantic Region, and the United States from 2017 through 2021.

**Annual Average Unemployment Rate  
Pennsylvania, Middle Atlantic Region and the United States  
2017-2021**

| Calendar Year | PA  | Middle Atlantic Region <sup>a</sup> | United States |
|---------------|-----|-------------------------------------|---------------|
| 2017.....     | 4.9 | 4.7                                 | 4.4           |
| 2018.....     | 4.2 | 4.2                                 | 3.9           |
| 2019.....     | 4.4 | 4.0                                 | 3.7           |
| 2020.....     | 9.1 | 9.7                                 | 8.1           |
| 2021.....     | 6.3 | 6.6                                 | 5.3           |

<sup>a</sup>Middle Atlantic Region: Pennsylvania, New York, New Jersey. Source: U.S. Department of Labor, Bureau of Labor Statistics (BLS).

## Personal Income

Personal income in the Commonwealth for 2021 was \$830.4 billion, an increase of 5.3 percent over the previous year. During the same period, national personal income increased by 7.4 percent. Based on the 2021 personal income statistics, per capita income was at \$64,054 in the Commonwealth compared to per capita income in the United States of \$63,444. The following tables represent annual personal income data and per capita income from 2017 through 2021.

### Personal Income Pennsylvania, Mideast Region and the United States 2017-2021

| Year      | Total Personal Income<br>Dollars in Millions |                     |                   | Total Personal Income<br>As a % of 2017 Base |                     |                   |
|-----------|----------------------------------------------|---------------------|-------------------|----------------------------------------------|---------------------|-------------------|
|           | PA                                           | Mideast             |                   | PA                                           | Mideast             |                   |
|           |                                              | Region <sup>a</sup> | U.S. <sup>b</sup> |                                              | Region <sup>a</sup> | U.S. <sup>b</sup> |
| 2017..... | 679,731                                      | 3,010,538           | 16,870,106        | 100%                                         | 100%                | 100%              |
| 2018..... | 717,255                                      | 3,147,619           | 17,839,255        | 106%                                         | 105%                | 106%              |
| 2019..... | 737,161                                      | 3,208,874           | 18,402,004        | 108%                                         | 107%                | 109%              |
| 2020..... | 788,725                                      | 3,402,858           | 19,607,447        | 116%                                         | 113%                | 116%              |
| 2021..... | 830,397                                      | 3,590,523           | 21,056,622        | 122%                                         | 119%                | 125%              |

<sup>a</sup>Mideast Region: Pennsylvania, New York, New Jersey, Maryland, District of Columbia, and Delaware

<sup>b</sup>Sum of States

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

### Per Capita Income Pennsylvania, Mideast Region and the United States 2017-2021

| Calendar Year | Per Capita Income |                     |        | As a % of U.S. |                                |
|---------------|-------------------|---------------------|--------|----------------|--------------------------------|
|               | PA                | Mideast             |        | PA             | Mideast<br>Region <sup>a</sup> |
|               |                   | Region <sup>a</sup> | U.S.   |                |                                |
| 2017.....     | 53,155            | 59,410              | 51,910 | 102%           | 114%                           |
| 2018.....     | 51,500            | 65,341              | 54,606 | 94%            | 120%                           |
| 2019.....     | 58,032            | 67,622              | 56,490 | 103%           | 120%                           |
| 2020.....     | 61,700            | 70,459              | 59,510 | 104%           | 118%                           |
| 2021.....     | 64,054            | 73,403              | 63,444 | 101%           | 116%                           |

<sup>a</sup>Mideast Region: Average of Pennsylvania, New York, New Jersey, Maryland, District of Columbia, and Delaware. Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The Commonwealth's average hourly wage rate of \$28.82 for manufacturing and production workers is below the national average of \$29.69 for 2021. The following table presents the average hourly wage rates for 2017 through 2021.

### Average Hourly Wages Production Workers on Manufacturing Payrolls Pennsylvania and the United States 2017-2021

| Calendar Year | PA       | U.S.     |
|---------------|----------|----------|
| 2017.....     | \$ 25.52 | \$ 26.59 |
| 2018.....     | \$ 25.74 | \$ 27.05 |
| 2019.....     | \$ 26.23 | \$ 27.70 |
| 2020.....     | \$ 27.65 | \$ 28.77 |
| 2021.....     | \$ 28.82 | \$ 29.69 |

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

## Market and Assessed Valuation of Real Property

Annually, the State Tax Equalization Board, Tax Equalization Division (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 from 2016-2020. 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.

**Valuations of Taxable Real Property  
2016-2020**

| Year      | Market Value <sup>a</sup> | Assessed Valuation | Rate of Assessed Valuation to<br>Market Value <sup>a</sup> |
|-----------|---------------------------|--------------------|------------------------------------------------------------|
| 2016..... | 839,594,528,100           | 599,849,032,792    | 71.4%                                                      |
| 2017..... | 847,630,312,124           | 628,417,398,959    | 74.1%                                                      |
| 2018..... | 877,385,372,915           | 642,305,663,711    | 73.2%                                                      |
| 2019..... | 922,018,498,396           | 677,415,063,122    | 73.5%                                                      |
| 2020..... | 966,037,072,558           | 696,790,394,130    | 72.1%                                                      |

<sup>a</sup>Market Value difference between Regular Assessment and Preferential Assessment under Act 319 of 1974.  
Source: Annual Certifications by the State Tax Equalization Board.

## 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 general elections. Special sessions may be called by the Governor on petition from the majority of members in each chamber or whenever the Governor determines that public interest so requires. Legislative leadership includes majority and minority leaders in each chamber, 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 17 departments and 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 or herself 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 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.

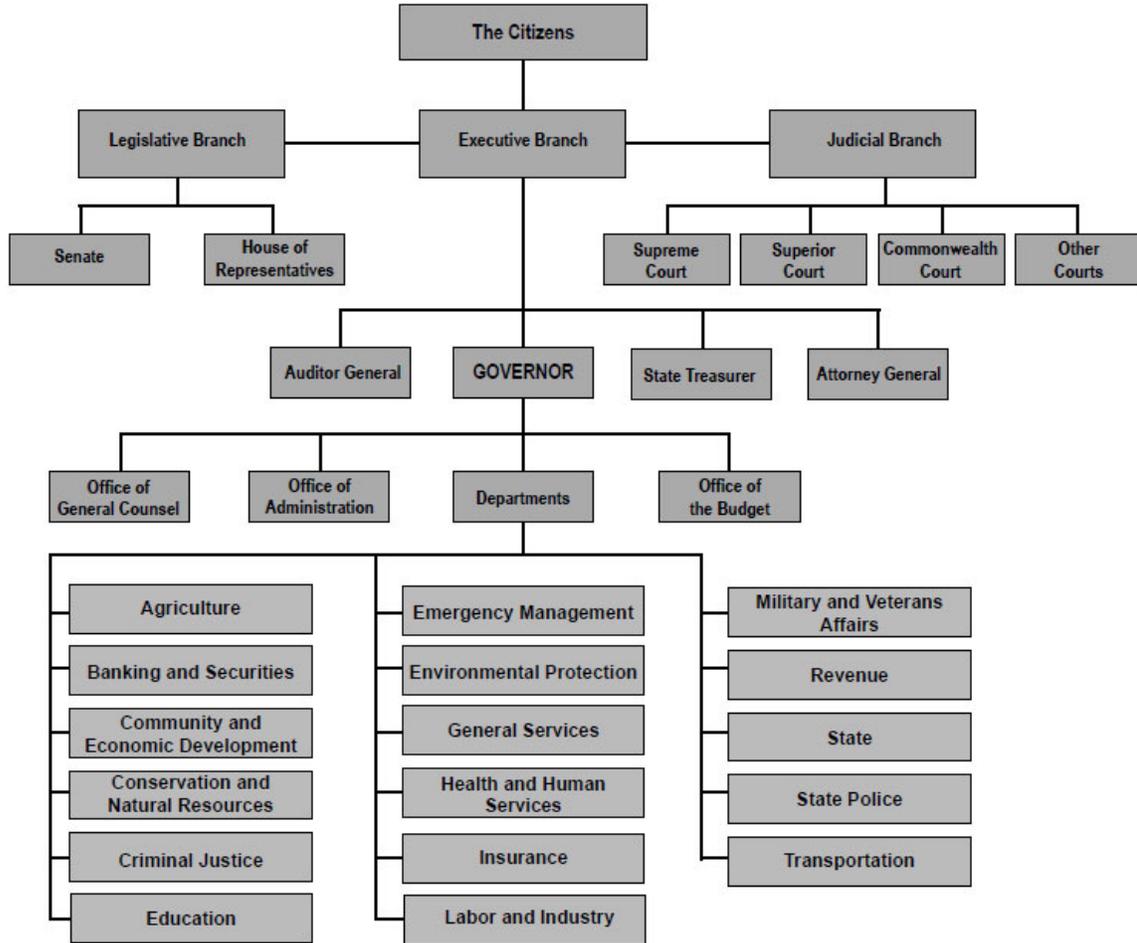
The Auditor General is charged with making audits of completed financial transactions. The Department of the Auditor General is under the Auditor General's direct jurisdiction.

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  
Interstate Agencies

AUTHORITIES

Automobile Theft Prevention  
Commonwealth Financing  
Economic Development Financing  
Energy Development  
Higher Education Facilities  
Industrial Development  
Infrastructure Investment  
Insurance Fraud Prevention  
Minority Business Development  
Patient Safety  
Public School Building

BOARDS

Claims  
Environmental Hearing  
Gaming Control  
Finance and Revenue  
Liquor Control  
Milk Marketing  
Municipal Retirement  
Pardons  
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 Utility  
Tumpike

## **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 most 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 2021" refers to the fiscal year ended on June 30, 2021.

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 the economic forecasting company 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 enough 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/her 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 chambers. 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 chambers.

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 chamber except for non-preferred appropriations, appropriations from the Budget Stabilization Reserve Fund and 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 chambers and are returned to the Governor, he/she may either veto bills or line item veto appropriations within bills. A gubernatorial veto can be overridden only by a two-thirds majority of all members of each chamber.

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, 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, shares 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, 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, which is enforced by the State Treasurer and the second is by allocations and allotments, which 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 the centralized comptroller 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, except for 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 ensure 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 ensure that they are in accordance with law. In addition, OB conducts, as a matter of administrative policy, periodic audits of departments under the Governor's jurisdiction and performance audits of State and federal programs.

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

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

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

DTC, the world’s largest securities depository, 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 and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

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

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

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

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

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

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

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

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

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

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

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

SELECTED  
CONSTITUTIONAL PROVISIONS  
RELATING TO THE FINANCES  
OF THE COMMONWEALTH

Article VIII — TAXATION AND FINANCE

Commonwealth Indebtedness

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

- (1) Debt may be incurred without limit to suppress insurrection, rehabilitate areas affected by man-made or natural disaster, or to implement unissued authority approved by the electors prior to the adoption of this article.
- (2) The Governor, State Treasurer and Auditor General, acting jointly, may (i) issue tax anticipation notes having a maturity within the fiscal year of issue and payable exclusively from revenues received in the same fiscal year, and (ii) incur debt for the purpose of refunding other debt, if such refunding debt matures within the term of the original debt.
- (3) Debt may be incurred without limit for purposes specifically itemized in the law authorizing such debt, if the question whether the debt shall be incurred has been submitted to the electors and approved by a majority of those voting on the question.
- (4) Debt may be incurred without the approval of the electors for capital projects specifically itemized in a capital budget, if such debt will not cause the amount of all net debt outstanding to exceed one and three-quarters times the average of the annual tax revenues deposited in the previous five fiscal years as certified by the Auditor General. For the purposes of this subsection, debt outstanding shall not include debt incurred under clauses (1) and (2)(i), or debt incurred under clause (2)(ii) if the original debt would not be so considered, or debt incurred under subsection (3) unless the General Assembly shall so provide in the law authorizing such debt.

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

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

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

### **Commonwealth Credit Not to be Pledged**

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

### **Municipal Debt Not to be Assumed by Commonwealth**

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

### **Audit**

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

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

### **Gasoline Taxes and Motor License Fees Restricted**

Section 11. (a) All proceeds from gasoline and other motor fuel excise taxes, motor vehicle registration fees and license taxes, operators' license fees and other excise taxes imposed on products used in motor transportation after providing therefrom 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.

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

\_\_\_\_\_, 2022

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

Re: Commonwealth of Pennsylvania General Obligation Bonds, First Series of 2022

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 \$1,000,000,000 aggregate principal amount of Commonwealth of Pennsylvania General Obligation Bonds, First Series of 2022 (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 April 1 and October 1 of each year commencing April 1, 2023, 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 of the Commonwealth of Pennsylvania (the "Constitution"); the laws of the Commonwealth, including the Capital Facilities Debt Enabling Act, Act No. 1999-1, approved February 9, 1999, as amended, annual capital budget bills and various bond authorization bills enacted by the General Assembly. The Bonds are also authorized and issued pursuant to resolutions adopted by the Governor, the State Treasurer and the Auditor General (the "Issuing Officials") on August 31, 2022 and September 7, 2022 (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 therefor and the forms of the bidding documents used in connection with the issuance and sale of the Bonds.

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 has been duly approved and adopted and has become part of the Constitution, and the statutes referred to above have been duly and properly enacted.
2. Pursuant to full and adequate legal power conferred upon them by the Constitution and the statutes referred to above, the Governor, the State Treasurer and the Auditor General 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 the Bonds (as defined above) by levying unlimited ad valorem taxes upon all taxable property within the Commonwealth and excise taxes upon all taxable transactions within the Commonwealth, uniform on the same class of subjects, except gasoline and other motor fuel excise taxes, motor vehicle registration fees and license taxes, and operators' license fees and other excise taxes imposed on products used in motor transportation, and aviation fuel excise taxes, the proceeds of which are limited to certain special purposes by Section 11 of Article VIII of the Constitution.

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

Very truly yours,

Josh Shapiro  
Attorney General  
Office of Attorney General of the  
Commonwealth of Pennsylvania

**BELOW IS THE PROPOSED FORM OF OPINION OF CO-BOND COUNSEL  
EXPECTED TO BE DELIVERED IN CONNECTION WITH THE  
ISSUANCE OF THE BONDS**

September 22, 2022

Commonwealth of Pennsylvania  
333 Market Street, 18th Floor  
Harrisburg, PA 17101-2210

BofA Securities, Inc.  
Bank of America Tower  
One Bryant Park, 9th Floor  
New York, NY 10036

Manufacturers and Traders Trust Company,  
As Loan and Transfer Agent  
213 Market Street  
Harrisburg, PA 17101

RE: \$1,000,000,000 Commonwealth of Pennsylvania General Obligation Bonds,  
First Series of 2022

Ladies and Gentlemen:

We have served as Co-Bond Counsel to the Commonwealth of Pennsylvania (the “Commonwealth”) in connection with the issuance of its \$1,000,000,000 General Obligation Bonds, First Series of 2022 (the “Bonds”). The Bonds are issued under and pursuant to (i) Section 7 of Article VIII of the Constitution of the Commonwealth, (ii) the laws of the Commonwealth, including the Capital Facilities Debt Enabling Act, Act No. 1991-1 (the “Constitution”), approved February 9, 1999, as amended (the “Act”), and annual capital budget bills and various bond authorization bills enacted by the General Assembly, as amended, and (iii) bond resolutions adopted by the Governor, State Treasurer and Auditor General of the Commonwealth (collectively, the “Issuing Officials”) on August 31, 2022 and September 7, 2022 (collectively, the “Resolutions”). Capitalized terms used but not otherwise defined herein have the meanings set forth in the Resolutions.

The Bonds are being issued by the Commonwealth to provide funds (i) to finance various capital projects as detailed in the Resolutions, and (ii) to pay all or a portion of the costs of issuance for the Bonds.

In our capacity as Co-Bond Counsel, we have examined and relied on the proceedings relating to the authorization and issuance of the Bonds, including, among other things: (i) the Constitution, the Act and certain of the annual capital budget bills and bond authorization bills referenced above; (ii) certified copies of the Resolutions; (iii) an opinion of the Office of the Attorney General of the Commonwealth dated September 22, 2022; (iv) certificates executed by the Commonwealth and its Loan and Transfer Agent for the Bonds as to the execution and authentication of the Bonds; (v) a certificate of the Auditor General of the Commonwealth regarding the Commonwealth’s compliance with the debt limitation contained in Section 7(a)(4)

of Article VIII of the Constitution; (vi) various other certificates executed by the Commonwealth, including a Non-Arbitrage Certificate dated the date of issuance of the Bonds (the “Tax Certificate”), pursuant to which the Commonwealth has, among other things, covenanted that it will make no use of the proceeds of the Bonds that would cause the Bonds to be “arbitrage bonds” or “private activity bonds,” as those terms are defined in the Internal Revenue Code of 1986, as amended (the “Code”), and the applicable regulations thereunder, and that it will comply with the applicable requirements of Sections 103 and 141 through 150 of the Code and the applicable regulations thereunder throughout the term of the Bonds; and (vii) a completed and executed Form 8038-G of the Commonwealth with respect to the Bonds to be filed with the Internal Revenue Service.

In rendering our opinion, we have assumed the accuracy of, and not undertaken to verify, the factual matters set forth in such certificates and other documents by independent investigation, and we have relied on the covenants, warranties and representations made by the Commonwealth in such certificates and in the Resolutions and other financing documents. In addition, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity with originals of all documents submitted to us as copies and the accuracy of certificates of public officials.

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

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

2. The Bonds have been duly authorized, executed and delivered by the Commonwealth pursuant to all necessary action of the Issuing Officials and constitute valid and binding general obligations of the Commonwealth, enforceable against the Commonwealth in accordance with the terms thereof, except as enforcement may be limited by laws relating to bankruptcy, insolvency, reorganization, arrangement, moratorium or similar laws affecting creditors’ rights generally and subject to limitations on legal remedies against public entities in the Commonwealth, to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and to the exercise of judicial discretion.

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

4. Under the laws of the Commonwealth as presently enacted and construed, the interest on the Bonds is exempt from Pennsylvania personal income tax and corporate net income tax; however, under the laws of the Commonwealth enacted and construed on the date hereof, any profits, gains, or income derived from the sale, exchange or other disposition of the Bonds will be subject to taxes of the Commonwealth and local taxes within the Commonwealth.

For the Bonds, interest on the Bonds (including original issue discount) is excludable from gross income under existing laws as enacted and construed on the date hereof. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. However, interest on the Bonds is taken into account in determining annual adjusted financial statement income of applicable corporations (as defined in Section 59(k) of the Code) for the purpose of computing the federal alternative minimum tax imposed on such corporations for tax years beginning after December 21, 2022.

5. The opinions set forth in the preceding sentences are subject to the condition that the Commonwealth comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with all such requirements. Our opinion assumes compliance with such covenants, and we do not undertake to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date hereof may affect the tax status of interest on the Bonds. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

Ownership of tax-exempt obligations, including the Bonds, may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, S corporations with “excess net passive income” and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry such obligations. Other than as expressly set forth herein, we express no opinion as to any such collateral federal income tax consequences.

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

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

This is only an opinion letter and is not a warranty or guaranty of the matters discussed above.

This opinion letter is limited to the matters expressly stated herein. This opinion letter 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. Our engagement as Co-Bond Counsel concludes with the issuance of the Bonds.

Very truly yours,

## CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT dated \_\_\_\_, 2022 (the “**Agreement**”), is executed and delivered by the Commonwealth of Pennsylvania (“**Commonwealth**”) in connection with the issuance and delivery of \$1,000,000,000 Commonwealth of Pennsylvania General Obligation Bonds, First Series of 2022 (the “**Bonds**”).

The Bonds are being issued pursuant to the initial and final resolutions of the Commonwealth adopted by the Governor, State Treasurer and Auditor General to provide funds to current refund and advance refund certain prior issues or portions of prior issues of bonds of the Commonwealth.

The Commonwealth hereby covenants and agrees as follows:

**Section 1. Purpose.** This Agreement is being executed and delivered by the Commonwealth for the benefit of the holders and the beneficial owners of the Bonds and in order to assist the underwriters purchasing the Bonds to comply with the provisions of Section (b)(5)(i) of Rule 15c2-12 (the “**Rule**”) promulgated by the Securities and Exchange Commission (the “**SEC**”) by undertaking to provide certain annual financial information and material event notices required by the Rule (collectively, “**Continuing Disclosure**”).

**Section 2. Annual Disclosure.**

(a) So long as any Bonds are outstanding, the Commonwealth annually shall provide financial information and operating data in accordance with the provisions of Section (b)(5)(i) of the Rule as follows:

(i) Audited financial statements of the Commonwealth, prepared in accordance with generally accepted accounting principles; and

(ii) Unless included in such financial statements, operating data with respect to the Commonwealth and its operations of the type found in the following tables in the Official Statement for the Bonds dated September \_\_, 2022: (a) Tables 5 through 10 under the heading “COMMONWEALTH FINANCIAL PERFORMANCE”; (b) Tables 11 and 12 under the heading “COMMONWEALTH REVENUES AND EXPENDITURES”; (c) Tables 15 through 18 under the heading “OUTSTANDING INDEBTEDNESS OF THE COMMONWEALTH”; and (d) Tables 20 through 24 under the heading “OTHER STATE RELATED OBLIGATIONS”. If any of the tables listed above reflect information that is no longer calculated and available or relevant because of changes in operations, the Commonwealth will provide notice of such change in the first annual filing of annual operating data after such changes are undertaken. The format of such information may be altered from that set forth in the Official Statement.

If the audited financial statements to be filed pursuant to Section 2(a)(i) are not available by the date of the required filing, the Commonwealth may instead file unaudited statements by such date and file audited statements when available.

(b) The Commonwealth shall provide annually the financial information and operating data described in subsection (a) above (collectively, the “**Annual Disclosure**”) within 240 days after the end of the Commonwealth’s fiscal year, commencing with the Commonwealth’s fiscal year ending June 30, 2022, to the Municipal Securities Rulemaking Board (the “**MSRB**”) via the Electronic Municipal Market Access system, or any successor thereto (“**EMMA**”).

(c) The Annual Disclosure may be included by specific reference to other documents available to the public on the MSRB internet website (presently [www.msrb.org](http://www.msrb.org)) or filed with the SEC.

(d) The Commonwealth shall provide in a timely manner to the MSRB via EMMA notice specifying any failure of the Commonwealth to provide the Annual Disclosure by the date specified.

**Section 3. Event Disclosure.** So long as any Bonds are outstanding, the Commonwealth shall provide in a timely manner, not in excess of ten business days after the occurrence of the event, to the MSRB notice of the occurrence of any of the following events with respect to the Bonds:

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults, if material;
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) Substitution of credit or liquidity providers, or their failure to perform;
- (f) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (g) Modifications to rights of holders of the Bonds, if material;
- (h) Bond calls, if material, and tender offers;
- (i) Defeasances;
- (j) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (k) Rating changes;
- (l) Bankruptcy, insolvency, receivership or similar event of the Commonwealth;
- (m) The consummation of a merger, consolidation, or acquisition involving the Commonwealth or the sale of all or substantially all of the assets of the Commonwealth, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (n) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (o) Incurrence of a financial obligation of the Commonwealth, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Commonwealth, any of which affect security holders, if material;
- (p) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the Commonwealth, any of which reflect financial difficulties; and

For the purposes of the event identified in paragraph (l) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Commonwealth in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Commonwealth, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Commonwealth.

**Section 4. Termination.** The obligations of the Commonwealth hereunder will terminate upon the redemption, defeasance (within the meaning of the Rule) or payment in full of all the Bonds.

**Section 5. Amendment.** The Commonwealth may modify their respective obligations hereunder without the consent of Owners of the Bonds, provided that this Agreement as so modified complies with the Rule as it exists at the time of modification. The Commonwealth, as applicable, shall within a reasonable time thereafter send to the MSRB a description of such modification(s).

**Section 6. Defaults.**

(a) If the Commonwealth fails to comply with any covenant or obligation regarding Continuing Disclosure specified in this Agreement, any holder (within the meaning of the Rule) of Bonds then outstanding may, by notice to the Commonwealth, proceed to protect and enforce its rights and the rights of the holders by an action for specific performance of such covenant to provide the Continuing Disclosure; provided that any holder seeking to require compliance by the Commonwealth with this Agreement shall first provide to the Commonwealth's Office of the Budget at least 30 days' prior written notice of the Commonwealth's failure, giving reasonable details of such failure, following which notice, the Commonwealth shall have 30 days to comply.

(b) Notwithstanding anything herein to the contrary, any failure of the Commonwealth to comply with any obligation regarding Continuing Disclosure specified in this Agreement (i) shall not be deemed to constitute an event of default under the Bonds or the resolutions or other documents providing for the issuance of the Bonds and (ii) shall not give rise to any right or remedy other than that described in Section 6(a) above.

**Section 7. Additional Disclosure.** The Commonwealth may from time to time disclose certain information and data in addition to the Continuing Disclosure. Notwithstanding anything herein to the contrary, the Commonwealth shall not incur any obligation to continue to provide, or to update, such additional information or data.

**Section 8. Filing Format.** Any information, document, data and/or notice submitted to the MSRB via EMMA hereunder shall be submitted in electronic format and shall be accompanied by identifying information, all as prescribed by the MSRB.

**Section 9. Governing Law.** This Agreement shall be construed and enforced in accordance with the laws of the Commonwealth of Pennsylvania.

**Section 10. Successors and Assigns.** All of the covenants, promises and agreements contained in this Continuing Disclosure Agreement by or on behalf of the Commonwealth shall bind and inure to the benefit of its successors and assigns, whether so expressed or not.

**Section 11. Headings for Convenience Only.** The descriptive headings in this Continuing Disclosure Agreement are inserted for convenience of reference only and shall not control or affect the meaning or construction of any of the provisions hereof.

IN WITNESS WHEREOF this Agreement is executed as of the date and year first above written.

COMMONWEALTH OF PENNSYLVANIA

By: \_\_\_\_\_